THE WORLD BANK
ANNUAL REPORT 1994

THE WORLD BANK ANNUAL REPORT 1994

The World Bank
Washington, D.C. 20433

Photo Credits

Cover: François Charton
Page 10: Antonia Macedo
Page 78: François Charton
Page 81: Jan Post
Page 92: Antonia Macedo
Page 97: François Charton
Page 103: Ephim Schluger
Page 109: Jan Post
Page 120: Peter Muncie

Cover:
This girl lives near the Guatemala high-country village of Solala near Lake Atitlan. Known as the "jewel of the highlands," the lake has generated income from tourism and allowed the villagers to become relatively prosperous. The child has traveled to the market with her parents and is waiting at the bus plaza to travel home.

Cover design by Joyce C. Petruzzelli

ISSN: 0252–2942
ISBN: 0–8213–2545–0

Letter of Transmittal

This Annual Report, which covers the period July 1, 1993, to June 30, 1994, has been prepared by the executive directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in accordance with the respective by-laws of the two institutions. Lewis T. Preston, president of the IBRD and IDA and chairman of the boards of executive directors, has submitted this Report, together with accompanying administrative budgets and audited financial statements, to the board of governors.

During this, the Fiftieth Anniversary year of the founding of the Bank, the directors wish to pay tribute to the dedication of Bank staff, who for five decades have served to make the world a better place in which to live. Enormous development challenges remain; the directors are confident that they will be addressed with enthusiasm and professionalism equal to that given in the past.

Annual Reports for the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) are published separately.

EXECUTIVE DIRECTORS

Ibrahim A. Al-Assaf
Faisal A. Al-Khaled
Aris Othman
Marc-Antoine Autheman
Mohamed Benhocine
Andrei Bugrov
John H. Cosgrove
Robert R. de Cotret
Marcos Caramuru de Paiva
Huw Evans
Fritz Fischer
Nicolas Flaño
Jean-Daniel Gerber
Enzo Grilli
Eveline Herfkens
Ruth Jacoby
Bimal Jalan
Yasuyuki Kawahara
Jean-Pierre Le Bouder
O.K. Matambo
Jan Piercy
Walter Rill
Angel Torres
Wang Liansheng

ALTERNATES

Ibrahim M. Al-Mofleh
Mohamed W. Hosny
Jannes Hutagalung
Jérôme Haas
Abdul Karim Lodhi
Alexander N. Doumnov
Bong-Hee Won
Hubert Dean
Marcela Cartagena
David Stanton
Harald Rehm
Julio Nogues
Jan Sulmicki
Helena Cordeiro
Ileana Ionescu
Helga Jonsdottir
M.A. Syed
Rintaro Tamaki
Ali Bourhane
Hary M. Mapondo
(vacant)
Nurcan Akturk
Gabriel Castellanos
Zhang Shengman

August 2, 1994

The World Bank, the IFC, and MIGA

The World Bank is a multilateral development institution whose purpose is to assist its developing member countries further their economic and social progress so that their people may live better and fuller lives. The term "World Bank" refers to two legally and financially distinct entities: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD and IDA have three related functions: to lend funds, to provide economic advice and technical assistance, and to serve as a catalyst to investment by others.

The IBRD finances its lending operations primarily from borrowings in the world capital markets. IDA extends assistance to the poorest countries on easier terms, largely from resources provided by its wealthier members. Funds from such other sources as governments, commercial banks, export-credit agencies, and other multilateral institutions are increasingly being paired with World Bank funds to cofinance projects. The World Bank also provides loans to help developing countries adjust their economic policies and structures in the face of structural problems that threaten continuing development.

The International Finance Corporation (IFC), an affiliate of the World Bank, seeks to promote growth in the private sector of developing countries by mobilizing foreign and domestic capital to invest alongside its own funds in commercial enterprises.

The Multilateral Investment Guarantee Agency (MIGA), also an affiliate of the World Bank, was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from noncommercial risk, especially risk of war or repatriation.

Contents

Letter of Transmittal 3

World Bank, the IFC, and MIGA 4

Glossary 7

Overview of World Bank Activities in Fiscal 1994 11

Section One. The Executive Board 16

Section Two. The Economic Scene: A Global Perspective 23

Section Three. Major World Bank Programs: Fiscal Year 1994 33
- Human Resources Development 33
- Environmentally Sustainable Development 42
- Financial and Private Sector Development 50

Section Four. World Bank Operations: Fiscal Year 1994 56
- Disbursements 56
- Technical Assistance 68
- Cofinancing 69
- Improving Portfolio Management, Accountability, and Openness 73

Section Five. 1994 Regional Perspectives 79
- Africa 79
- East Asia and Pacific 88
- South Asia 95
- Europe and Central Asia 101
- Latin America and the Caribbean 107
- Middle East and North Africa 114
- Summaries of Projects Approved for IBRD, IDA, and Trust Fund for Gaza Assistance in Fiscal 1994 122
- Projects Approved for IBRD and IDA Assistance in Fiscal Year 1994, by Region and Country 144
- Trends in Lending, IBRD and IDA, Fiscal Years 1992–94 147
- Projects Approved for IBRD and IDA Assistance in Fiscal Year 1994, by Sector 148

Section Six. Other World Bank Group Services and Activities 154
- Operations Evaluation 154
- Internal Auditing 156
- Economic Development Institute 156
- Research at the World Bank 158
- The Administrative Budget and Bank Administration 160
- International Finance Corporation 163
- Multilateral Investment Guarantee Agency 164
- International Centre for Settlement of Investment Disputes 165

Section Seven. World Bank Finances 166

Financial Statements of the International Bank for Reconstruction and Development 173

Financial Statements of International Development Association and the Special Fund Administered by IDA 195

IBRD/IDA Appendices

1 Governors and Alternates of the World Bank **212**
2 Executive Directors and Alternates of the World Bank and Their Voting Power **216**
3 Officers and Department Directors of the World Bank **218**
4 Offices of the World Bank **221**
5 IBRD and IDA Cumulative Lending Operations, by Major Purpose and Region **228**
6 IBRD and IDA Cumulative Lending Operations, by Borrower or Guarantor **230**
7 Statement of IBRD Loans Approved during Fiscal Year 1994 **234**
8 Statement of IDA Credits Approved during Fiscal Year 1994 **240**
9 Current IBRD, IDA, and Blend Borrowers **245**
10 Development Committee Communiqués, Fiscal Year 1994 **246**

Index 251

Boxes

The Bank, Age 50, Looks to the Next Century **12**

2–1 The Uruguay Round, Market Access, and the Developing Countries **31**

3–1 Higher Education—Lessons of Experience **34**
3–2 Review of Projects Involving Involutary Resettlement **44**
3–3 Private Sector Assessments **51**
3–4 Managing Energy **53**

4–1 Independent Inspection Panel is Established **74**
4–2 Public Access to Bank Information Expands **75**
4–3 The World Bank's Experience with Governance **76**
4–4 Increasing the Reliability of Rating Project Effectiveness **77**

5–1 Implementation of Economic Reform: Overview and Seven Case Studies **82**
5–2 Toward Better Health in Africa **85**
5–3 China: Continuing Reform and Development **89**
5–4 The East Asian Miracle **89**
5–5 Lending to Viet Nam Resumes; Is Initiated in Cambodia **91**
5–6 Privatization Progress in the Russian Federation **104**
5–7 Pension Reform in Latin America **112**
5–8 The World Bank and the Occupied Territories **116**

7–1 IDA's Ninth Replenishment Period (Fiscal 1991–93) **170**

Glossary

Agenda 21 The main operational product of the United Nations Conference on Environment and Development (UNCED), Agenda 21 is an ambitious action plan covering over 100 program areas (climate, desertification, sustainable agriculture, for example) integrating environment and development, to be supported by new and additional financial resources, improved access on favorable terms to environmentally sound technology, and strengthened institutional capacity in developing countries. States were called upon to prepare national sustainable development plans outlining their own environmental problems as well as their strategies, programs, and priorities for implementing Agenda 21. UNCED agreed that financing should be assembled to support these programs through a variety of existing, rather than new, funding mechanisms.

"Brady" operations Named after a March 1989 initiative by then-U.S. Secretary of the Treasury Nicholas Brady who proposed that countries with sound adjustment problems should get access to debt- and debt-service reduction facilities supported by international financial institutions and official creditors. It represented a shift in the international community's debt strategy from supporting adjustment with concerted new lending to supporting adjustment with debt- and debt-service reduction.

"Brown" environmental agenda Refers to the immediate and most critical environmental problems facing cities and includes three main areas—energy use and efficiency, urban and industrial pollution control, and urban environmental management.

Central bank facility A facility used by the IBRD to raise short-term United States-dollar debt by offering to central banks and other government organizations of member countries a one-year, United States-dollar denominated variable-rate instrument. The interest rate is adjusted monthly on the yield of the one-year U.S. Treasury bill plus a spread.

Committee of the Whole The Committee of the Whole is a committee made up of all executive directors; it has traditionally served as a forum in which preliminary discussion of issues takes place before they are taken up by the executive board. It is also the forum in which the executive directors act as a preparatory body for the work of the Development Committee.

Currency swaps Currency swaps are used by the Bank as a liability-management tool and essentially involve an exchange of a stream of principal and interest payments in one currency for a stream in another currency. The Bank uses currency swaps to obtain borrowings in the ultimately desired "target" currency at below cost of a market borrowing in that currency.

Development Committee This committee is known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries. Established in October 1974, the committee currently consists of twenty-four members, generally Ministers of Finance, appointed for periods of two years by one of the countries or a group of countries that designates a member of the Bank's or the International Monetary Fund's board of executive directors. The committee is required to advise and report to the boards of governors of the two institutions on all aspects of the broad question of the transfer of real resources to developing countries and to make suggestions for their implementation.

"Enhanced" Toronto terms A menu of Paris Club concessions for low-income countries, initiated in 1991, comprises two options providing for deeper debt reduction plus the nonconcessional option from the old Toronto terms. The concessional options amount to 50 percent forgiveness in present-value terms on debt-service payments falling due during the consolidation period. Enhanced Toronto terms also provide for a third nonconcessional option: consolidation at market rates, with a repayment period of twenty-five years, including a fourteen-year grace period. This option was adopted by the United States and some smaller

creditor countries that were, at the time, unable to adopt debt cancellation for non-ODA debt.

Forward foreign exchange market Allows for the sale or purchase of foreign currency for deferred rather than immediate delivery.

G-7 countries Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States

"Green" environmental agenda Refers to the promotion of sustainable natural resource management and the reduction of resource degradation, and includes agriculture and land management, forest management, water-resource and watershed management, marine and coastal zone management, and biodiversity conservation.

ICOR (incremental capital-output ratio) An aggregate measure of the efficiency of investment. It shows the amount of investment required to produce an annual income stream of one dollar. The lower the ICOR, the more efficient the investment.

LIBOR (London Interbank Offered Rate) LIBOR is the rate at which major banks in London are willing to lend in a specific currency or currency unit to other banks. It is used as a base rate for many international interest-rate transactions.

Low-income countries Are those countries with a GNP per capita of $675 or less in 1992 United States-dollar terms.

Mezzanine financing Has two separate meanings, one having to do with the type of finance, the other with the stage a company has reached. It is the second sense that applies to mezzanine finance funds supported by the IFC: risk capital made available to unlisted companies to support development and expansion programs, in anticipation of the companies' being listed.

Middle-income countries Are those countries with a GNP per capita of more than $675 but less than $8,356 in 1992 United States-dollar terms.

Negative-pledge clause Negative-pledge clauses are concerned with the granting of security interests by a borrower over its assets to its creditors. By the terms of such a clause, the borrower agrees with a creditor or group of creditors to restrictions on its granting, or otherwise permitting to exist, security interests in favor of other creditors. Negative-pledge clauses are usually standard in Bank loan documents. They may be waived on a case-by-case basis, however.

Official development assistance (ODA) Financial aid to developing countries and multilateral institutions provided by official agencies, or by their executive agencies. ODA is administered with the promotion of the economic development and welfare of developing countries as its main objective, is concessional in character, and contains a grant element of at least 25 percent.

Panel data set Is one composed of both time series and cross-section observations. The resulting data base is a gold mine of analytical information relative to the much more common cross-sectional base.

Paris Club The Paris Club is the name given to the *ad hoc* meetings of creditor governments that, since 1956, have arranged, when necessary, for the renegotiation of debt owed to official creditors or guaranteed by them. (Debts to commercial banks are renegotiated with committees of the banks involved.) The World Bank is not a member of the Paris Club.

Social-action programs Social-action programs and social funds consist of multisectoral operations that mobilize several sources of financing to fund special interventions and targeted projects seeking to alleviate the social costs of adjustment, as well as poverty in general. The project components that typically get financed include public works, severance payments, retraining, and schemes in nutrition, primary health, and primary education. While the objectives and project content of social-action programs and social funds are similar, they differ in their institutional set-up. Social funds finance small, demand-driven subprojects and often bypass existing bureaucratic systems and procedures; funding commitments are often based on the evaluation of project proposals prepared according to predetermined selection criteria. Social-action program subprojects are typically appraised by the World Bank. Whereas social funds are most often parastatal quasi-financial institutions, social-action programs generally cover a broader array of institutional arrangements, such as quasi-autonomous project units or integration into sectoral ministries.

Social fund (See social-action programs)

SPA-eligible country Country eligibility is determined on the basis of poverty (countries cannot be eligible for IBRD loans), indebtedness (countries have to have projected debt-service ratios of 30 percent or more, and efforts to adjust (countries have to be currently implementing a policy-reform program that is endorsed and normally supported by the Bank

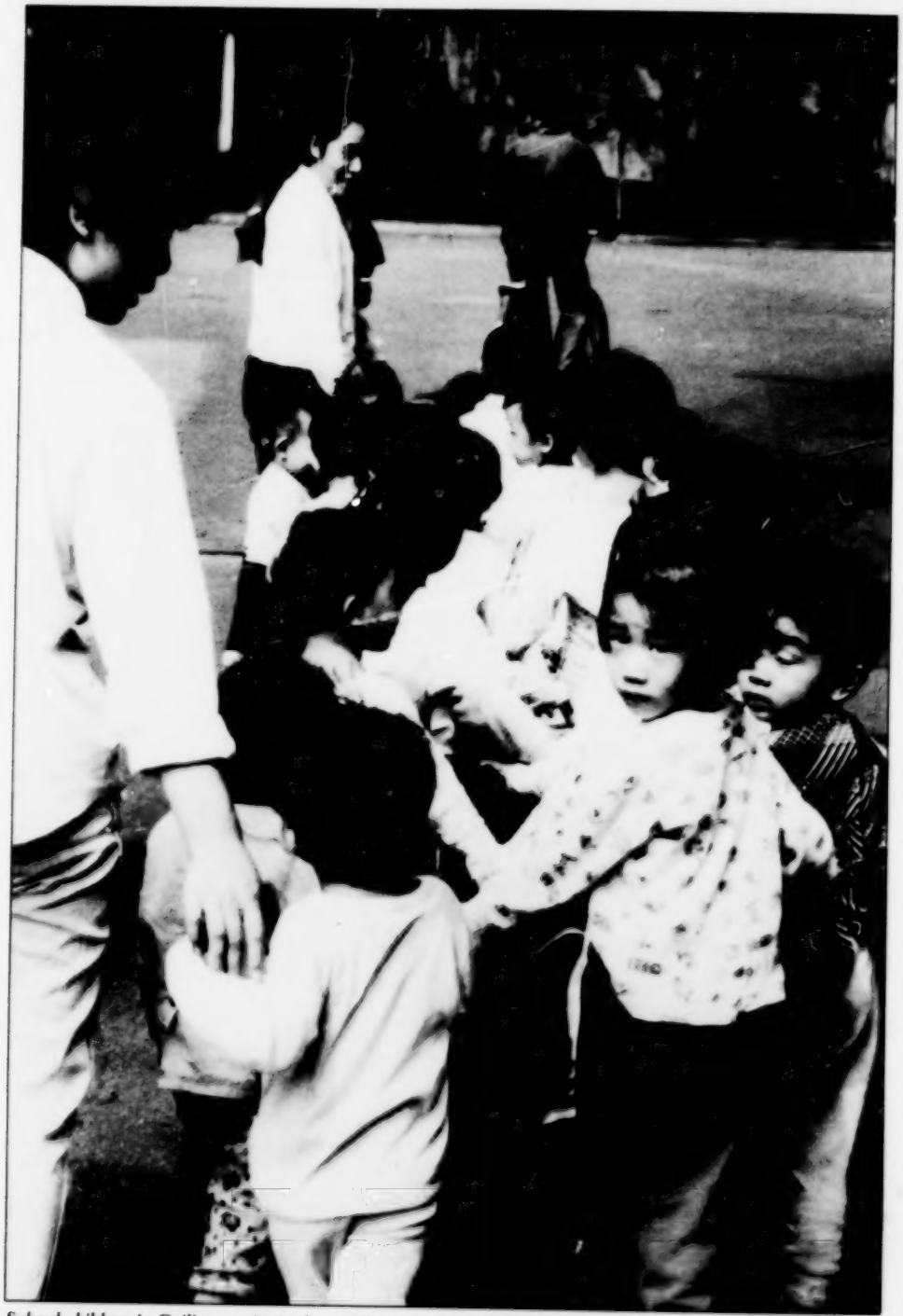
and the International Monetary Fund, and agreement has to be reached on a policy framework paper).

Special drawing rights (SDRs) The special drawing right is a reserve asset created in 1968 by the International Monetary Fund for use by its members and certain prescribed institutions, among which are multilateral development banks and the Bank for International Settlements. Its value is calculated daily by using a weighted basket of the currencies of the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States).

Structured notes Those for which the returns are linked to interest and/or exchange rate indices.

Toronto terms Toronto terms refer to a menu of options that can be chosen to reduce official debt in low-income, debt-distressed countries. The terms, agreed upon in September 1988 (following agreement in principle at the economic summit held in Toronto three months earlier), include reduced interest, very long grace and repayment periods (at commercial rates), or partial write-offs of debt-service obligations during the consolidation period (with the rest rescheduled at commercial rates and shorter maturities), or a combination of these options.

Vehicle currency A currency in which the Bank borrows and simultaneously enters into a currency swap in order to convert the "vehicle" currency liability into a liability denominated in another currency (a so-called "target" currency").



School children in Guiling, a city in the southern province of Guangxi. In China, equal education is provided to girls from the earliest age.

Overview of World Bank Activities in Fiscal 1994

The fundamental objective of the World Bank is to support the reduction of poverty in its member countries. During fiscal 1994, the Bank continued to make progress—through its lending operations and a strengthened policy dialogue—in implementing the poverty-reduction strategies first outlined in *World Development Report 1990* and subsequently elaborated in a policy paper and associated operational documents.

A report on poverty reduction, discussed by the executive board in April 1994, concluded that progress was being made in implementing the Bank's poverty-reduction strategy—in the Bank's lending operations, in country-assistance strategies and the policy dialogue, and in strengthening poverty analyses. The report noted, however, that several challenges had to be addressed in the Bank's future poverty-reduction work. They include ensuring an integrated poverty-reduction effort in country-assistance strategies; completion of, and improvements to, poverty assessments for all borrowers; and development of poverty-monitoring systems and expansion of countries' capacity to implement them.

Most recently, the Bank has placed less emphasis on the growth of its portfolio and more on its quality. This shift grew out of the 1992 report of the Task Force on Portfolio Management, which identified certain aspects of Bank practice that either may have contributed to portfolio-management problems or were insufficiently effective in resolving them. Steps were taken in fiscal 1994 to incorporate the task force's recommendations so as to make the Bank more effective in pursuing its basic goal of reducing poverty in borrowing countries.

As the core of its action plan, the Bank introduced a country-by-country approach,

Operational and Financial Overview, Fiscal 1990–94
(millions of US dollars unless otherwise noted; fiscal years)

Item	1990	1991	1992	1993	1994
IBRD					
Commitments	15,180	16,392	15,156	16,945	14,244
Disbursements	13,859	11,431	11,666	12,942	10,447
Net disbursements[a]	5,726	2,109	1,833	2,331	−731
New medium- to long-term borrowings	11,481	10,883	11,789	12,676	8,908
Net income	1,046	1,200	1,645	1,130	1,051
Subscribed capital	125,262	139,120	152,248	165,589	170,003
Statutory lending limit	137,046	152,327	168,369	183,312	189,189
Loans outstanding	89,052	90,638	100,810	104,451	109,291
Keys ratios					
Loans outstanding as a percentage of lending limit	65	59	60	57	58
Interest coverage ratio	1.17	1.17	1.24	1.16	1.16
Liquidity ratio (percent)	47	51	48	48	51
Reserves-to-loans ratio[b]	10.8	11.2	11.7	11.7	13.9
IDA					
Commitments	5,549	6,293	6,550	6,751	6,592
Disbursements	3,931	4,549	4,765	4,947	5,532
Net disbursements[a]	3,713	4,274	4,441	4,581	5,110

a. Amounts include disbursements, repayments, and prepayments to/from all members, including third party repayments.
b. Includes amount allocated to reserves for prefunding of interest waivers.

rather than a project-by-project approach, into the management of its ongoing lending operations. To complement the changes it made in its own policies and practices, the Bank is collaborating with the authorities in borrowing countries to review the performance of the portfolio in each country and resolve systemic problems. These and other measures are helping the Bank take a much more strategic view of its $148 billion loan portfolio ($107 billion, 982 projects, IBRD; $41 billion, 915 projects, IDA). According to a report on the progress of activities designed to improve the management of the development programs and projects the Bank finances, steady and substantial progress has been made during the past year towards sharpening the focus on implementation and on a performing portfolio. The report adds, however, that more remains to be done, for the action plan is not a set of one-time activities; rather, it is a process that is expected to take years before it is satisfactorily completed.

The Bank is also devoting more energy and resources to fostering stakeholder participation during project preparation. In June 1993, a Participation Fund was established to finance extra expenditures incurred in involving beneficiaries in project preparation and in economic and sector work. The initial monies allocated to the fund were fully committed by November, and additional amounts were allocated in March 1994. Involving beneficiaries in project preparation is now beginning to become normal Bank procedure.

Cooperation between the Bank and nongovernmental organizations (NGOs) continued to expand in terms of both lending operations and the policy dialogue throughout the year. Increased collaboration was clearly exhibited at the Conference on Actions to Reduce Hunger Worldwide that was convened by the Bank in November 1993. In addition to participating in presentations and discussion, NGOs assisted in the conference's preparatory and follow-up work.

During the year, steps were taken to increase the Bank's accountability and openness:

In September 1993, the executive board of the Bank established an independent Inspection Panel, which will receive and investigate complaints that the Bank has not followed its own policies and procedures with respect to

The Bank, Age 50, Looks to the Next Century

Fifty years ago, in July 1944, the World Bank was conceived at the United Nations Monetary and Financial Conference held in Bretton Woods, New Hampshire, United States of America.

Representatives of forty-four nations assembled there established two complementary financial institutions—the Bank and the International Monetary Fund.

This is what the report of Commission II (International Bank for Reconstruction and Development) to the Executive Plenary Session (United Nations Monetary and Financial Conference) wrote about the Bank in that summer of 1944:

"The creation of the Bank was an entirely new venture. . . . So novel was it, that no name could be found for it. Insofar as we can talk of capital subscriptions, loans, guarantees, issue of bonds, the new financial institution may have some apparent claim to the name of Bank. But the type of shareholders, the nature of subscriptions, the exclusion of all deposits and short-term loans, the non-profit basis, are quite foreign to the accepted nature of a Bank. However, it was accidentally born with the name Bank, and Bank it remains, mainly because no satisfactory name could be found in the dictionary for this unprecedented institution."

Reflection on the experience of the past fifty years highlights how far the world has progressed economically and socially and how far it still has to go.

In the developing countries, average life expectancy has increased by about 50 percent; the proportion of children attending school has risen from less than half to more than three quarters; and average income per person has more than doubled. The Bank—through its support for more than 5,000 projects in about 140 countries—has contributed to this progress.

Enormous challenges remain, however. They include reducing poverty for the more than 1 billion people who struggle to survive on about a dollar a day and providing basic sanitation, clean water, health care, and schooling for those lacking access to these basic services. Most countries in sub-Saharan Africa have been mired in lackluster or declining rates of growth for more than a decade. The problems associated with economic transformation in Central and Eastern Europe and the former Soviet Union have proved to be extremely complex. And new challenges are coming to the fore, in South Africa and the West Bank and Gaza, for example.

In a number of ways, the Bank is uniquely placed to help address these challenges. Most important is its fifty years of experience in working on almost every kind of development issue in almost every developing country. From that experience has come lessons learned over the years:

the design, appraisal, and/or implementation of a development project that it supports. The panel will be functionally independent and will report directly to the board. In April 1994, the three members of the panel were appointed.

In January 1994, the Bank expanded public access to operational information by opening a Public Information Center at the Bank's headquarters in Washington, D.C. that aims to provide timely and relevant information about the Bank's present and future plans by allowing public access to previously restricted documents. The information is also available through Bank offices in London, Paris, Tokyo, and through the institution's many field offices. The public can also use the Internet computer network to access project information documents and to view (and order) the titles of all Bank documents available on request, as well as the abstracts and entire text of selected documents. Greater transparency is essential to explain the Bank's work to the various stakeholders and thereby increase understanding of and support for Bank-supported activities.

Resources devoted to the many types of nonlending activities that serve to underpin future lending operations continued to be significant. In fiscal 1994, resources spent on economic and sector work were about 19 percent of the total. On an ongoing basis for all borrowers, the Bank is engaged in preparing or updating poverty assessments, private sector assessments, environmental assessments, national environmental action plans, and country-assistance strategies for discussion by the executive directors.

These and other economic and sector analyses are designed to deepen the Bank's understanding on development issues, improve the impact of its operations, and enhance policy-reform efforts. They are particularly important for the Bank's newest member countries, where there continues to be a need for considerable investment in analytical work prior to expanding technical assistance and lending programs. Furthermore, through the three new thematic vice presidencies, the Bank is evaluating best practices in human resources development, environmentally sustainable development, and financial and private sector development and is disseminating them to both staff and external audiences.

that people are both the means and ends of development; that sustained commitment to sound macroeconomic policy is vital; that institutional capacity is a major determinant of progress; and that economic growth should be broad-based and environmentally sustainable to reduce poverty effectively.

Of fundamental importance, through decades of experience in designing and implementing investment projects, the Bank has become a trusted adviser on development—sharing its global experience of what does and does not work—and helping its member countries apply those lessons.

In assisting its member countries to meet current and future challenges, the Bank is committed to build on and enhance its roles as a supplier of development finance/provider of advice, and, in special cases, as a resource for helping address strategic development issues that transcend national boundaries.

Given the scale and scope of the development agenda, the Bank is aware that it must avoid stretching itself too thin. It is focusing, therefore, on doing what it does best and is encouraging a division of labor with its partners. It is doing this by following six guiding principles:

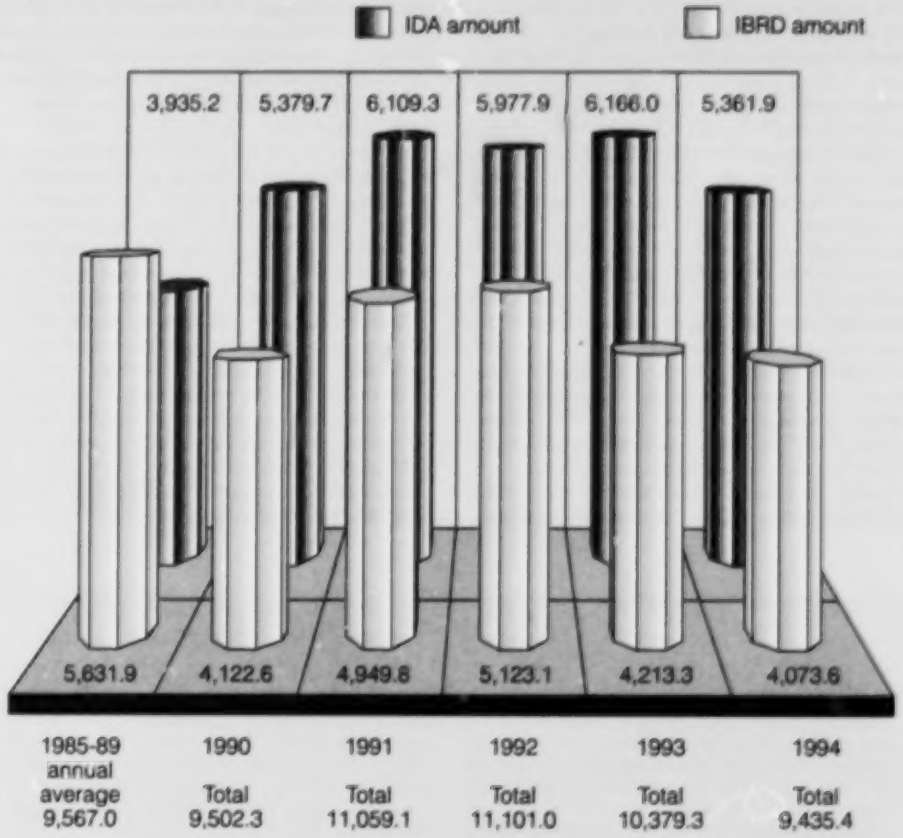
Being selective in choosing which strategic actions to pursue; embracing partnerships with other participants—multilateral, bilateral, governmental, nongovernmental, the private sector; responding to borrower needs and facilitating their participation in the design and implementation of Bank-supported programs; looking beyond lending commitments and concentrating on results in the field; ensuring that scarce development resources are spent wisely and efficiently; and maintaining its high standing in the financial markets.

The Bank's record in fostering economic development over the past half century has been aided in no small part by its ability to respond quickly and flexibly to the ever-changing environment in which it works. One fundamental point, however, has endured and will not change:

The Bank remains the only development institution in the world with a long-term partnership with virtually every developing country, a wealth of cross-country experience, and a product mix that combines finance, policy advice, and in-depth research. This unique capacity and the fifty-year experience with development make the Bank a major global asset in the effort to reduce poverty and improve the human condition—an asset that is just as needed today as it was fifty years ago.

The Bank calls on its partners to work with it in meeting the challenges of the twenty-first century.

IBRD and IDA Lending to the Poorest Countries, Fiscal 1985-94
(US$ millions)



Note: The poorest countries are defined as those with a per capita income of $675 or less in 1992 U.S. dollars.

In various parts of the Bank, changes in business practices are being explored. Experimentation is under way to help define means of delivering Bank products of higher quality with reduced costs. Most of these efforts are currently directed to process simplification, although more ambitious "redesigning" or process-innovation pilot programs are also under review. In addition, more focused priority setting is fostering greater partnerships with the private sector and other multilateral and bilateral donors. A greater role for the private sector is being promoted explicitly as the Bank moves to support and catalyze private sector activities. Collaboration with the International Finance Corporation at the operational level has been intensified, including review of programs in support of the telecommunications sector and private sector development activities.

Private flows represent an increasingly important source of finance for developing countries, with net flows reaching a ten-year high in 1993 of $113 billion, an increase of more than 150 percent of the level of 1990. Although levels of flows in the future are unpredictable, clearly today the private sector is playing a major role in those countries where reform programs are well established or the potential exists for large gains. Countries in East Asia,

Latin America, and Central and Eastern Europe have been the largest recipients of private capital, enabling the Bank to address more basic social and environmental issues that are not covered by other lenders.

In summary, the operational context was one of changing business products and processes in an environment containing many country uncertainties, making it all the more important that the Bank be well positioned to deliver work programs that are appropriate to current country circumstances and be able to respond quickly to changing conditions as they arise.

In fiscal 1994, lending by the Bank to all borrowers amounted to $20,836 million: $14,243.9 million by the IBRD and $6,592.1 million by IDA.

Specific investment loans and credits was, by far, the most favored lending instrument employed during the year. Commitments for this type of instrument totaled $14.1 billion (68 percent of the total).

Adjustment lending has been declining since 1989. In fiscal 1994, adjustment lending amounted to $2.4 billion, representing 12 percent of the total, compared with $6.2 billion in fiscal 1989, an amount that represented 29 percent of total lending. This decline is due to the relative maturity of the reform process in many countries and to constraints and uncertainties that impede progress in others.

Assistance to the poorest countries—those with a per capita gross national product of $675 or less (in terms of 1992 United States dollars) totaled $9,435.4 million: $4,073.6 million from the IBRD and $5,361.9 million from IDA (see accompanying figure). One loan of $30 million, on IDA-like terms, from resources provided by the Trust Fund for Gaza was approved for the Occupied Territories.

Net disbursements from the IBRD to member countries were a negative $731 million. IDA's net disbursements were $5,110 million.

During the year, the tenth replenishment of IDA's resources (IDA-10) became effective, and the Debt-reduction Facility for IDA-only Countries was extended until July 31, 1995. In July 1993, the executive board agreed to allocate $100 million from the IBRD's net income earned during fiscal 1993 to the facility.

The IBRD borrowed the equivalent of $8,908 million in the world's financial markets. Net income was $1,051 million.

During the fiscal year, the former Yugoslav Republic of Macedonia fulfilled the required formalities to succeed to the membership of the former Socialist Federal Republic of Yugoslavia, bringing the total membership of the IBRD to 177. At the end of the fiscal year, action was pending on membership in the IBRD for Bosnia-Herzegovina, Eritrea, and the Federal Republic of Yugoslavia.

The former Yugoslav Republic of Macedonia also fulfilled the required formalities to succeed to the membership of the former Socialist Federal Republic of Yugoslavia as a member of IDA. Armenia became a member of IDA on August 25, 1993, Georgia became a member on August 31, 1993, and Moldova became a member on June 14, 1994, bringing the total membership of IDA to 156. At the end of the fiscal year, action was pending on membership in IDA for Bosnia-Herzegovina, Eritrea, Turkemenistan, Ukraine, and the Federal Republic of Yugoslavia.

Section One
The Executive Board

The executive directors are responsible for the conduct of the general operations of the Bank, which includes deciding on Bank policy in the framework of the Articles of Agreement and approving all loan and credit proposals. The president of the Bank is the chairman of the executive directors. The president is also the chief of the operating staff of the Bank and conducts, under the direction of the executive directors, the ordinary business of the Bank.

The executive directors are also responsible for presenting to the board of governors an audit of accounts, an administrative budget, the *Annual Report* on the operations and policies of the World Bank, and any other matters that, in their judgment, require submission to the board of governors. Matters may be submitted to the board of governors at its annual meetings or at any time during the year.

The executive board exercises its authority, under the Articles of Agreement, in three general areas. First, through its annual oversight of the financial and operating programs, and administrative budgets, the board determines the allocation of financial and staff resources for the coming year. Second, through its review of evaluations of completed Bank projects and the Bank's experience in individual sectors and with particular policies, as well as through its participation in the annual review of portfolio performance, the board is actively involved in auditing development effectiveness, thereby ensuring that the Bank and member countries can benefit from the lessons of experience. Through its review of specific policy proposals (for example, the Bank's financial policies, operational policies, lending terms, sectoral priorities), the board determines the direction of Bank policies. Through its approval of lending operations and its review of the Bank's country-assistance strategies, the board oversees the Bank's lending program.

Exercise of executive board authority in these three areas results in continuous dialogue between the board and the management of the Bank. The quality of that dialogue was further enhanced throughout the fiscal year on those occasions of broad discussion on key issues such as emergency assistance to the Occupied Territories and the countries of the CFA Zone, poverty reduction, portfolio management, establishment of an independent inspection panel, and the Bank at age fifty as it looks towards its work and role in the Twenty-first Century.

Oversight of Financial and Operating Programs

In fulfilling its responsibilities to oversee the IBRD and IDA financial and operating programs, the executive directors authorized a program of borrowings and liability management in the context of a borrowing plan for fiscal 1994 of $12.0 billion equivalent. This program, which the board monitored on a quarterly basis through regular market briefings, was carried out according to agreed broad parameters. In accordance with the simplified budget review cycle endorsed by the board in fiscal 1992, the executive directors were involved in the formulation of the Bank's medium-term planning directions (fiscal 1995–97) and in setting the fiscal 1995 operating budget. In this framework, they approved indicative IBRD lending for the year at between $15.5 billion and $17.5 billion, with an indicative IDA lending program of 5.3 billion in special drawing rights (about $7.5 billion). The board also approved the allocation of fiscal 1993's net income and the plan for fiscal 1994.

Operations Evaluation and Project Implementation

In order to fulfill its responsibility to review project evaluations and proposals for future evaluation activities, the board continued to give particular attention to the Operations Evaluation Department (OED). The OED, under the management of the director general, is linked administratively to the Bank president but is directly responsible to the executive directors. The board approved OED's work program and staff budget for fiscal 1994 and reviewed the status of the department's work and its report on operations evaluation. The executive board also agreed that, following its discussion of OED's annual review of evalua-

tion results, the review should be published and made available outside the Bank.

In addition, the executive directors endorsed steps for strengthening portfolio-performance management, including the internal processes used by the Bank to oversee portfolio performance. In turn, they held discussions with management and staff on the "Annual Report on Portfolio Performance," which covered the results of fiscal 1993. This report noted that the greater attention to portfolio-performance management, particularly the "cleaning up" of the operations portfolio, had helped in the short term to avoid a further deterioration in the Bank's quantitative measures of portfolio performance. The board will continue to monitor progress and review the next steps in this ongoing process.

Review of Policy Proposals

In the course of the fiscal year, the executive board reviewed policy proposals and made decisions that affected the operations in many areas of Bank activities, including finance, lending operations, sector policies, development economics, and administration.

Finance. In fiscal year 1994, IDA policies and operations continued to receive the attention of the directors. Early in the fiscal year, the board reviewed IDA's policies, operations, and finances during the ninth replenishment period (fiscal 1991–93).[1] With respect to IDA reflows, the board set the use of advance commitment authority from future reflows amounting to SDR800 million (about $1,126 million) annually for the period fiscal 1994–96 and further annual allocations in fiscal 1994 of SDR190 million (about $265 million) for the "fifth dimension" program. This program provides supplementary IDA resources to those IDA-only countries that have outstanding debt to the IBRD, are current in their debt-service payments to both the IBRD and IDA, and have in place IDA-supported adjustment programs. Such supplementary resources, therefore, take into account the debt impact arising from IBRD interest payments.

Following the launch of a pilot program of single-currency loans to respond to some borrowers' needs in fiscal 1993 for a choice of terms to help reduce the currency and interest rate risks in their IBRD loans, the board held an interim review to assess the target ratios for the composition of the currency pools.[2] The executive directors also approved a structured bond borrowings and liquidity arrangement that, by applying the existing debt buyback and borrowing authority, would permit the IBRD to exchange outstanding structured bonds denominated in any currency for floating rate notes or new structured bonds with different embedded derivatives. In order to facilitate such exchanges, and structured borrowings generally, the executive directors also authorized short-term borrowings to be conducted in any currency by amending the short-term United States dollar borrowing authorization and the exclusion of such exchanges from the volume limit approved by the board applicable to the IBRD's regular repurchases of debt securities.

In fiscal 1989 the board had approved a joint resolution establishing the Debt-reduction Facility for IDA-only Countries. Subsequent extensions were made to the facility, and in fiscal 1994 the board assessed progress under the facility and approved its extension until July 31, 1995.

Operations. In fiscal year 1994 the board interacted with Bank management and staff to set policies fundamental to the Bank's operational priorities and strategies. Establishing an inspection function at the Bank was one of the board's major concerns in the fiscal year. As a result of its intensive discussions of the issues and options in both formal and informal settings, the executive directors established the objectives, mandate, and operating procedures for an inspection panel. This panel would provide an independent review mechanism for affected parties of an action or omission by the Bank resulting from its failure to follow its operational policies and procedures.[3] The three members of the panel were named in April 1994. The members of the panel accepted their appointments, effective August 1, and the panel was expected to open for business in early September.

A similar process was followed by the executive directors in expanding access to Bank information through revisions to the Bank's policies on disclosure of information, which provided, among other things, access by the public to a number of previously restricted documents and the establishment of a Public Information Center at the Bank's headquarters.[4]

The board reaffirmed the importance of poverty reduction as an integrating theme in nearly all Bank assistance. The executive directors assessed the progress that had been made in supporting poverty reduction in the Bank's activities in fiscal year 1993 and reviewed the adequacy of the steps taken by the Bank to improve the way it addresses poverty issues.[5]

---

[1] For details, see page 170.
[2] For details, see page 167.
[3] For details, see page 74.
[4] For details, see page 75.
[5] For details, see page 36.

In fiscal 1993, the board approved a policy under which countries in transition could be granted a temporary waiver of the negative-pledge clause under certain conditions. The negative-pledge clause is a standard feature of all IBRD loan agreements. Its basic purpose is to protect the Bank by prohibiting, among other things, member-country borrowers from establishing liens on public assets that would create a preference for other creditors on foreign exchange loans over the debt owed to the Bank. For countries in transition to market economies, however, most of their important assets are still publicly owned, and, therefore, the negative-pledge clause makes it extremely difficult for public sector enterprises to enter into much-needed financial relationships with private creditors without either requesting a waiver of the negative-pledge clause or granting equal and ratable security to the IBRD.

As a result of the eligibility requirements established under the fiscal 1993 policy, however, no waivers of the negative pledge were granted. Therefore, substantial investments were pending in several countries because of the continued application of the negative-pledge clause. To address this problem, the board approved in fiscal 1994 a modification to the negative-pledge waiver that would allow the country-eligibility decision to be based on the Bank's judgment that the country was making progress in privatization, was moving toward a market economy and experiencing improvement in its macroeconomic situation, and that the waiver of the negative pledge would further contribute to the attainment of these goals. In the wake of this modification, the board approved country waivers for Russia, Uzbekistan, and Kazakhstan.

The board continued to monitor the Bank's role in providing technical assistance. They reviewed the first year of experience with the Institutional Development Fund,[6] recommended to the board of governors the establishment of the Joint Vienna Institute, and discussed the board's report on technical assistance activities in fiscal year 1993. In addition, the board provided guidance to staff on revising the Bank's policies as they relate to procurement activities, outreach, and supervision.

The importance placed by the board on environmental sustainability in the Bank's operations was reflected in the directors' discussions of the annual report on the Bank and the environment, in their major review of Bank projects involving involuntary resettlement in the period 1986–93,[7] and in their substantial involvement with the negotiations, replenishment, and restructuring of the Global Environment Facility.[8]

The board carefully followed developments in the international economic and political environment, often in forums such as seminars and briefings, which allowed for a more informal debate with management and staff. Major issues included the establishment of a donors' group for the Occupied Territories and a transfer from surplus to fund an emergency rehabilitation program for Gaza,[9] specific issues related to development in Africa, such as the adjustment experience,[10] better health,[11] and the Bank's role in the development of South Africa; Latin America, a decade after the debt crisis; the East Asian economic "miracle";[12] and the international conference on hunger.[13] The executive directors were also participants in a colloquium with outside experts on the recent economic developments in China.

The board reviewed the Bank's development in the context of the country-assistance strategies (CAS) of sixty IBRD and IDA borrowers. To ensure that these reviews provided appropriate coverage of the key issues affecting the Bank's strategy and that individual lending operations were consistent with the overall strategy, the board considered the role and nature of the CAS and set guidelines for their preparation. The executive directors also kept abreast of the activities and progress of the increasing number of consultative and aid groups chaired by the Bank at the request of the recipient countries (see Table 1-1).

In addition to approving all IBRD loans and IDA credits, the board monitored the progress of the Bank's overall lending program through regular briefings with senior management. In addition, to gauge the impact of the Bank's work "on the ground" and to discuss priority development issues with senior policymakers in member countries, selected groups of executive directors and alternate executive directors travelled to a number of borrowing countries. In fiscal 1994, there were four such missions: to Indonesia and Fiji; the Czech Republic, Hungary and Slovakia; Egypt, Lebanon, and Morocco; and Benin, Côte d'Ivoire, and Ghana.

Sector Policies and Development Economics

In regular board sessions, committees of the whole, seminars, and informal briefings, a

[6] For details, see page 68.
[7] For details, see page 44.
[8] For details, see page 47.
[9] For details, see page 116.
[10] For details, see page 82.
[11] For details, see page 85.
[12] For details, see page 89.
[13] For details, see page 49.

Table 1-1. **Aid Coordination Group Meetings Chaired by the World Bank in Fiscal 1994**
(consortia, consultative groups, and aid groups)

Date	Country	Location
1993		
July 1–2	India consortium	Paris
July 12–13	Tanzania consultative group	Paris
October 26	Moldova consultative group	Paris
October 27	Belarus consultative group	Paris
November 22–23	Kenya consultative group	Paris
December 6–8	Mozambique consultative group	Paris
December 8–10	Zambia consultative group	Paris
December 9–10	Bolivia consultative group	Washington, D.C.
December 12–14	Zimbabwe consultative group	Paris
December 16	West Bank and Gaza Strip consultative group	Paris
December 19–21	Malawi consultative group	Paris
1994		
January 14	Kazakhstan consultative group	Paris
January 25–26	Egypt consultative group	Paris
January 27–28	Caribbean sub-group for Guyana	Guyana
February 24–25	Pakistan consortium	Paris
March 7–8	Ethiopia consultative group	Paris
March 17–18	Sierra Leone consultative group	Paris
March 22–23	Zambia consultative group	Paris
April 19–20	Bangladesh aid group	Paris
April 21–22	Caribbean Group for Cooperation in Economic Development (meeting of donors)	Washington, D.C.
May 5–6	Mauritania consultative group	Paris
May 10–11	Peru consultative group	Paris
May 17	Jordan consultative group	Paris
June 2	Kyrgyz Republic consultative group	Paris
June 6–7	Romania consultative group	Paris
June 6–10	Caribbean Group for Cooperation in Economic Development	Washington, D.C.
June 9–10	Bulgaria consultative group	Paris
June 16	Nicaragua consultative group	Paris
June 27–28	FYR Macedonia consultative group	Paris
June 30–July 1	India Development Forum 1994	Paris

NOTE: The meeting of the Nepal aid group, originally scheduled for April 28–29, 1994 was postponed.

number of sector policies, their implementation, and "best practices" were reviewed. In the area of human resources development, the executive directors discussed the lessons of experience with higher education[14] and, on several occasions, debated the issues of gender and development, which culminated in a policy paper on enhancing women's participation in economic development.[15] In the area of trade, the board considered a preliminary assessment of the completed Uruguay Round of GATT talks, as well as the emergence of "new regionalism" and its consequences.[16]

Other important sector reviews included Bank Group issues with regard to telecommunications, transport policies, and financial and private sector development. The board also considered the outline and final draft of *World Development Report 1994*, which examined the interplay between infrastructure and development.[17]

Administration

The board also dealt at some length with the Bank Group's administrative policies and practices. In fiscal year 1994, it was involved in issues of staff benefits, including the quadrennial review of benefits and eligibility for expatriate benefits. They also reviewed their own

[14] For details, see page 34.
[15] For details, see page 37.
[16] For details, see page 31.
[17] For details, see page 43.

operational travel policies and made modifications that aligned these policies with those of the staff. As it does each year, the executive directors considered the issues affecting staff compensation and approved a salary adjustment. They made a recommendation to the governors on the remuneration of the Bank's president.

In a number of meetings, the board followed the implementation of the rehabilitation of the Bank's main complex building. They also reviewed the arrangements for the Bank's annual meetings.

As the fiftieth anniversary of the founding of the Bretton Woods institutions approached, the executive directors extensively involved themselves in the planning for commemorating the anniversary and in collaborating with Bank management and staff on the drafting of the Bank's current and future agenda.

Development Committee

As in previous years, the executive directors were actively involved with the Development Committee, assisting committee members in preparing for their meetings, considering the draft provisional agenda, and discussing the president's reports and background papers that were the basis for the ministers' discussions. In addition, several months prior to each Development Committee meeting, the executive directors convened as a committee of the whole to review the preliminary agenda and the outlines for the background papers in order to ensure that the main issues and concerns of committee members were well reflected in the documentation.

In preparing for the committee's semiannual meetings, the board discussed a range of papers and reports that touched on many issues of importance to the Bank's member countries, including the adjustment experience in, and implications for, low-income countries; social security reforms and social safety nets in reforming transition economies; reports on population in developing countries[18] and migration flows, and Bank activities in women in development.[19] The executive directors' Steering Committee reviewed the communiqués released by the Development Committee following its semiannual meetings and made suggestions to ensure that the board's work program was responsive to the directions set by the committee.

Board Committees

Joint Audit Committee. Established in 1970, the Joint Audit Committee (JAC) represents shareholders in overseeing the soundness of the Bank's financial practices and the adequacy of the work of the operations evaluation and internal audit units. The committee provides a channel through which the internal and external auditors can communicate with the executive directors.

In pursuing its responsibilities during fiscal 1994 the committee nominated a firm of private, independent, internationally established accountants to conduct the annual audits of the Bank. The committee reviewed the scope of the independent accountants' examination and their annual audited financial statements. It also held in-depth discussions with the external auditors on the scope of their work on special audits, particularly those carried out on the main complex rehabilitation project. The committee reiterated the importance of maintaining a close working relationship with the external auditors. Several meetings were held in the course of the year to this effect. In addition, through regular meetings with the Bank's senior financial officers, the committee helped to provide assurance to the executive board that the financial affairs of the Bank were properly conducted. In this regard, the committee reviewed and endorsed recommendations pertaining to the fiscal 1994 implementation of the IBRD's policy for loan-loss provisioning. It was also briefed on the status of the current Bank loan portfolio. In addition, the committee reviewed the situation of countries in arrears and heard reports on recent developments in nonaccrual countries. The committee also reviewed and endorsed preliminary recommendations regarding the annual allocation of the IBRD's net income. Another area examined was the adequacy of the Bank's internal control systems. As part of its oversight function, the committee undertook its annual review of the work programs of the Operations Evaluation Department (OED) and Internal Auditing Department (IAD). Two subcommittees of alternate executive directors were appointed to assist the committee in carrying out its mandate with regard to the OED and the IAD. In addition, the committee reviewed numerous papers by the OED as part of an ongoing effort to identify problems or policy issues for consideration by the executive directors.

The committee consists of eight executive directors. Marc-Antoine Autheman has served as chairman of the committee since March 1994.

Committee on Cost Effectiveness and Budget Practices. The Committee on Cost Effectiveness and Budget Practices (CEBP) was established in 1986 to examine aspects of the

[18] For details, see page 37.
[19] For details, see page 36.

Bank's business processes, administrative policies, business standards, and budget practices that significantly affect the cost effectiveness of its operations.

Fiscal year 1994 was the first year that the committee's mandate was expanded to include the review of all the major papers in the Bank's budget cycle—the fiscal 1993 retrospective review, IBRD/IDA planning directions for fiscal years 1995–97, the fiscal 1994 mid year review, and the IBRD programs and fiscal 1995 budget. Following meetings to consider the relevant papers, the committee prepared reports to the board conveying its views on the planning directions paper and on the budget for fiscal 1995. The discussion of the latter was added to the committee's work program as a follow-up to the fiscal 1994 budget discussion during which the importance of the committee's active involvement in the planning and budgeting process was strongly encouraged.

The committee devoted a number of meetings to considering cost-saving issues that covered a wide range of Bank activities, from improvements in the efficiency with which work is carried out to systematic and incentive changes in processes and procedures. As a part of this exercise, the committee requested and was given a presentation on the work of the staff Committee on Business Innovation and Simplification (BIAS). Thereafter, the BIAS Committee sought the advice and views of the CEBP on the streamlining of some board documentation.

The committee consists of eight executive directors. Angel Torres has served as chairman of the committee since December 1992.

Committee on Personnel Policy Issues. The committee, which was established in 1980, is charged with keeping under continuing review and, where appropriate, advising the executive directors on, staff compensation and other significant personnel policy issues. It also maintains close liaison with the executive directors of the International Monetary Fund (IMF) on these issues, bearing in mind the general parallelism of the two institutions.

One of the main undertakings of the committee during the year was the continuing examination of the complex subject of expatriate benefits. The board subsequently took up the matter, first, on the basis of the committee's report and recommendation, and then, on the basis of a paper from management. The board finally decided not to change the current policy.

The committee reviewed the Bank's and the International Finance Corporation's (IFC) personnel policies and practices, results of the 1993 staff attitude survey, issues related to skills mix (that is, how the Bank identifies and recruits people with the skills needed to carry out its changing work program), and possible changes in the local currency option of the staff retirement plan. Two of the major actions undertaken by the committee were to review the results of the quadrennial benefits survey and of the 1994 review of staff compensation. Following the committee's endorsement, the board approved management's recommendations with respect to both items. The role of the Bank's field offices was also a focus of the committee's scrutiny.

The committee consists of eight executive directors. Jean-Pierre Le Bouder has served as chairman of the committee since January 1993.

Committee on Directors' Administrative Matters. The Committee on Directors' Administrative Matters (CODAM) was established in 1968 to consider administrative matters relating to executive directors and their alternates, advisers, and staff. The committee recommends to the executive board the formulation and implementation of new administrative policies and changes in existing policies.

Major issues taken up by the committee in the fiscal year included remuneration of advisers and executive directors' assistants; executive directors' travel to member countries outside of their constituencies (group travel); travel policy for executive directors; and consideration of executive directors' administrative expenses.

The committee coordinates many of its recommendations with a similar committee established by the executive board of the IMF.

The committee consists of six executive directors. John Cosgrove has served as chairman of the committee since January 1993.

The Ad Hoc Committee on Review of Board Committees. The Ad Hoc Committee on Review of Board Committees was established in December 1993 to review the function, structure, and terms of reference of standing committees of executive directors, including criteria for appointments to committees. It completed its work in April 1994. The committee's recommendations will be implemented following the 1994 regular election of executive directors.

The conclusions and recommendations in the committee's report, which was approved by the executive directors in May 1994, aim to improve and strengthen, rather than fundamentally change, existing arrangements for executive directors' committees. The main conclusions and recommendations are summarized below.

Functions and structure of committees. It was agreed that the overall objective of committees should be to strengthen the efficiency and ef-

fectiveness of the board in discharging its responsibilities. To meet this overall objective, committees need to carry out work programs that facilitate the process of consensus building and decisionmaking in the board and assist the board in discharging its oversight responsibilities. Generally, committees need to focus on a limited number of clearly defined priority issues.

In view of the overall workload of committees and the steadily growing importance and need for review of operations evaluation and development-effectiveness issues in the context of the Bank Group's operational activities, it was further agreed that (a) the mandate of the Joint Audit Committee should focus on external and internal audit and financial policy issues and (b) a new committee of eight executive directors should be established to review operations evaluation and development-effectiveness issues.

It was agreed that the mandates of all committees should apply uniformly to the IFC.

Interaction between committees, Bank management, and the board. New procedures were approved to strengthen interaction between committees, management, and the board. These procedures cover reporting requirements of committees and management to the board and are designed to facilitate board discussion of formal management proposals (including, in some cases, management option papers) submitted to committees for prior review.

A number of recommendations aimed at improving efficiency in the conduct of committee business were also approved, including, for example, recommendations for building consensus among executive directors on controversial issues, for identifying priority issues for board consideration, and for board approval of committee recommendations on an absence-of-objection basis.

Composition and guidelines for appointment to committees. It was further agreed that appointments to committees should be governed by general principles that can be applied flexibly, the two most important of which are consultation among executive directors and balanced representation from the board. Specifically, appointments to committees should reflect economic and geographic diversity of the Bank's member countries with a view to ensuring balanced representation between borrowing and nonborrowing member countries.

The committee consisted of four executive directors. Jorunn Maehlum served as chairman of the committee.

Executive Directors' Steering Committee. The Executive Directors' Steering Committee, an informal advisory body of executive directors composed of the dean and the co-dean of the board, as well as the chairpersons of the other standing board committees, meets monthly to consult on, and review with the Bank's vice president and secretary, the executive directors' work program. The committee also provides a consultative framework for various board issues. In addition, the committee reviews the Development Committee's communiqués to ensure that the implications for the executive directors' work program are fully considered. The steering committee has also taken a leadership role in ensuring the implementation of the new board policies and procedures, including, among others, the determination of the scheduling of country-assistance strategies and periodic reviews of sector policies. The committee consists of six executive directors. The dean of the board, Ibrahim Al-Assaf, has served as chairman since September 1993.

The meetings of committees of the executive board are open to participation by all executive directors.

Section Two
The Economic Scene: A Global Perspective

Economic activity in the industrialized countries slowed further in 1993, to 1.2 percent, as a result of sluggish growth in Japan and recession in continental Europe (see Table 2-1). Recovery in the United States was well under way by the fourth quarter of 1993, when output expanded by 7 percent on an annual basis. Canada and the United Kingdom experienced a modest recovery in 1993. The slow pace of overall growth in 1993 was associated with rising unemployment, which reached 8.2 percent in the industrial countries as a group, topping out at 10 percent of the labor force in several European countries.

Reflecting the significant gap between actual and potential output in most industrial countries, inflation continued to ease, as growth in the GDP deflator fell to 3.3 percent, down from 4 percent in 1992.[1]

The developing countries—excluding the countries in transition in Central and Eastern Europe and the former Soviet Union (FSU)—grew by an estimated 4.5 percent in 1993, up from 3.6 percent in 1992, thereby exceeding industrial-country growth by more than three percentage points for the third straight year (see Table 2-2). Underlying these aggregates, however, were widely differing trends between the countries in transition and the traditional universe of developing countries. Output in Central and Eastern European countries and in the republics of the FSU fell by an estimated 7.4 percent in 1993. Although the rate of decline slowed from 12.7 percent in 1992, it was the fourth straight year of diminishing output.

The continued robust growth in the traditional developing countries in the face of recession in the industrialized countries can be attributed to several factors. These include the effects of increasingly widespread and sustained policy reforms in many countries; low international interest rates (that partly offset the depressing effect on commodity exporters of falling export prices); and, associated with these two factors, the enormous continued surge in private capital flows to developing countries.

Growth performance among the main developing country regions continued to diverge widely. Growth in East Asia and the Pacific, of 9.2 percent, continued to outpace that in every other developing region by at least five percentage points. China remained the fastest growing economy in the region—and the world. Growth has averaged 13 percent in the past two years, as the government continued to implement market-based reforms and as transnational corporations continued to commit record amounts of investment. In July 1993, the Chinese authorities undertook measures to slow the torrid pace of growth and ease rising inflationary pressures. Malaysia and Thailand, two other prime recipients of foreign direct investment, once again displayed outstanding growth performance. These countries began to show strains resulting from shortages of skilled labor and adequate infrastructure, as well as from the need to address longer-term issues, such as upgrading production to higher value-added sectors as competition in the labor-intensive sectors increases from countries such as China, India, and Indonesia.

Latin American and the Caribbean once again experienced gains in output as reforms in many countries continued to take root and show results. Growth for the region as a whole, supported by large inflows of foreign private capital flows, rose to 3.5 percent, up from 2.8 percent in 1992. Individual country performance was mixed, however. Although Brazil's economy grew by an estimated 4.9 percent (up from a decline of close to 1 percent in the previous year), the inflation rate increased dramatically. Political uncertainty, lower oil prices, and policy weaknesses moved Venezuela into recession during the year. Growth, which slowed in Mexico to about 2 percent in 1992 after several years of more robust gains, was stagnant in 1993, as tighter credit conditions aimed at curbing a bulging external deficit slowed activity. The signing of the North American Free Trade Agreement (NAFTA),

[1] Although inflationary pressures remained in check, the strength of the recovery in the United States moved the Federal Reserve Board to increase short-term dollar interest rates in the first quarter of 1994. European and Japanese rates, however, remain low.

Table 2-1. **G-7 Countries: Output, Inflation, Investment, and Unemployment, 1983–93**
(average annual percentage change; unemployment rates in percent)

G-7 country	1983–93	1992	1993[a]	1983–93	1992	1993[a]
	Real GDP			GDP deflator		
Canada	2.7	0.7	2.4	3.3	1.1	1.8
France	2.1	1.4	−1.0	4.2	2.3	1.5
Germany[b]	2.6	1.2	−1.9	2.9	4.4	3.8
Italy	2.2	0.9	−0.7	7.7	4.7	3.8
Japan	3.7	1.2	1.1	1.5	1.8	1.4
United Kingdom	2.2	−0.5	1.9	5.3	4.3	2.5
United States	2.8	2.6	3.0	3.7	2.9	2.8
G-7 average	2.8	1.7	1.3	3.7	3.0	2.6
Total OECD	2.8	1.7	1.2	5.1	4.0	3.3
	Gross fixed investment			Unemployment rate		
Canada	3.3	−2.1	0.5	9.8	11.3	11.2
France	1.1	−3.1	−6.5	9.9	10.4	11.7
Germany[b]	2.9	0.3	−5.1	7.3	5.9	7.4
Italy	1.4	−1.5	−9.1	11.0	11.5	10.4
Japan	5.3	−4.3	−7.4	2.5	2.2	2.5
United Kingdom	3.2	−3.3	−2.9	9.2	9.8	10.3
United States	3.4	6.2	10.9	6.8	7.4	6.8
G-7 average	3.3	1.3	1.6	6.8	7.1	7.1
Total OECD	3.6	1.9	1.9	7.5	7.8	8.2

a. Preliminary.

b. German data refer to western Länder only.

SOURCE: Organisation for Economic Co-operation and Development (OECD), International Monetary Fund (IMF).

however, bolstered the positive longer-term outlook for the economy. Argentina, Chile, and Colombia experienced growth of more than 5 percent.

Sub-Saharan Africa (excluding South Africa) posted a modest increase in GDP of 1.4 percent; the region was helped by recovery from the most severe drought to hit Eastern and Southern Africa in this century, as well as by gradually improving performance in countries that have persisted with adjustment and reform policies. Although overall growth remained low, some hopeful signs also emerged: Civil war came to an end in Ethiopia and Mozambique, beverage prices moved higher during the year, and expectations for at least a stabilization in nonoil commodity prices became somewhat firmer. The 50 percent devaluation of the CFA franc and the subsequent prompt support from multilateral lenders and the French government substantially improved prospects for the revitalization of the adjustment process in the CFA Zone countries. Finally, the South African economy began its recovery from prolonged recession with the passing of drought, rising gold prices, and the ending of international sanctions, thereby providing a more favorable backdrop for the country's transition to multiracial democracy. That process has brought to the fore both hopes for substantial future economic progress, as well as recognition of the deep social and structural challenges facing a new administration.

Growth in South Asia slowed to 3.8 percent, in part the result of devastating floods in Pakistan towards the end of 1992 and weak industrial growth in India. Nevertheless, countries in the region showed improvements in their external account performance, with increased exports and private capital inflows. The new government in Pakistan confirmed its adherence to the reform policies of the previous transitional administration. India continued its moderately paced but steady economic reform policies. Although inflows of foreign capital to that country were small by comparison with leading East Asian and Latin American economies, they were nonetheless far greater than at any time in the past.

A fall in world oil prices of more than 10 percent contributed to a marked decline in growth, to an estimated 1.9 percent, in the Middle East and North Africa. Output fell almost 2 percent in Algeria as the country's political crisis deepened. Growth was almost negligible in Egypt, where the process of adjusting fiscal imbalances continued.

As a group, the transitional economies in Central and Eastern Europe and the FSU suffered a further decline in output of more than 7 percent. The republics of the FSU contributed the most to this decline, as their output fell 13

Table 2-2. **Low- and Middle-income Economies: Growth of GDP and GDP per Capita, 1982–93**
(average annual percentage change unless otherwise noted)

Region or income group	GDP					GDP per capita				
	1982–90	1991–93	1991	1992	1993[a]	1982–90	1991–93	1991	1992	1993[a]
Low- and middle-income economies	3.4	0.7	0.2	0.3	2.1	1.4	−1.1	−1.6	−1.5	0.2
By regional group										
Sub-Saharan Africa[b]	2.4	1.4	1.5	1.2	1.4	−0.7	−1.3	−1.5	−1.8	−1.7
East Asia and Pacific[c]	8.1	8.5	7.0	8.7	9.2	6.4	6.9	5.5	7.2	7.5
South Asia[d]	5.7	4.0	2.0	4.6	3.8	3.4	1.5	−0.2	2.5	1.8
Middle East and North Africa[e]	0.0	2.7	3.1	4.0	1.9	−3.1	−0.3	−0.2	1.1	−1.1
Europe and Central Asia[f]	1.9	−10.0	−9.3	−12.7	−7.4	1.1	−10.6	−9.8	−13.2	−8.0
Latin America and the Caribbean[g]	2.3	3.1	3.4	2.8	3.5	0.3	1.2	1.6	1.0	1.6
By income group										
Low- and middle-income economies, excluding transition economies in Europe and Central Asia	3.8	4.5	4.1	3.6	4.5	1.7	2.5	2.0	1.7	2.9

a. Estimated.

b. Excludes South Africa.

c. American Samoa, Cambodia, China, Fiji, Guam, Indonesia, Kiribati, Republic of Korea, Lao People's Democratic Republic, Macao, Malaysia, Mongolia, Myanmar, New Caladonia and Pacific Islands' Trust Territory, Papua New Guinea, the Philippines, Solomon Islands, Thailand, Tonga, Vanuatu, Viet Nam, and Western Samoa.

d. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

e. Algeria, Bahrain, Egypt, Islamic Republic of Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Oman, Saudi Arabia, Syrian Arab Republic, Tunisia, and Yemen.

f. Albania, Bulgaria, Czechoslovakia (through 1992; the Czech Republic and the Slovak Republic thereafter), Gibraltar, Greece, Hungary, Isle of Man, Malta, Poland, Portugal, Romania, Turkey, republics of the former Soviet Union, and republics of the former Yugoslavia.

g. All American and Caribbean economies south of the United States, except Cuba.

SOURCE: World Bank.

percent on top of a 20 percent drop in 1992. Political uncertainty and macroeconomic instability in Russia continued throughout the year. Nonetheless, the government maintained progress on the structural reform agenda, albeit at a halting pace. The privatization program maintained momentum; by the end of 1993, two thirds of all small service enterprises had been privatized. Output in Poland grew for a second year in a row, while economic contraction in Hungary and the Czech Republic appeared to be drawing to a close. There is evidence, especially in those three countries, that "new" largely private sector activity (concentrated in services, construction, and the trades) is beginning to account for a significant share of output (approaching 50 percent in some cases) and is providing support for growth.

Recent Trends in External Debt and Debt Strategies

The total external debt of all developing countries, including short-term debt, was estimated at $1,700 billion at the end of 1993, an increase of 6.5 percent in nominal terms, or about $108 billion, over the previous year. Of this amount, long-term debt outstanding stood at $1,411 billion, an increase of 7.9 percent ($103 billion) (see Table 2-3). The increase in long-term debt is accounted for principally by net inflows of around $72 billion and a currency-valuation factor of over $20 billion resulting from the fall of the United States dollar against the yen in 1993. In addition, capitalization of interest through debt reschedulings added $15 billion to long-term debt (though much of this was offset by reduction in short-term debt, in which interest arrears are classified for debt-accounting purposes), while voluntary debt reductions (buybacks, debt exchanges, equity swaps, and so forth) were expected to have reduced debt by $9 billion.

Private creditors provided 61 percent, or $44 billion, of the overall $72 billion net flow of long-term debt to the developing countries, an increase of $2 billion from 1992. For the second

***Table 2-3.* Low- and Middle-income Economies: Long-term Debt and Debt Service, Selected Years, 1988–93**
(billions of US dollars; percentages)

Item	All low- and middle-income economies			Severely indebted middle-income economies			Sub-Saharan Africa		
	1988	1992	1993[a]	1988	1992	1993[a]	1988	1992	1993[a]
Debt outstanding	1,128.1	1,308.2	1,410.9	440.0	456.9	475.2	135.0	155.5	156.4
Official (%)	46.0	50.9	51.0	38.4	47.0	46.4	60.6	73.0	74.0
Private (%)	54.0	49.1	49.0	61.6	53.0	53.6	39.4	27.0	26.0
Debt as % of GNP	29.1	29.6	31.7	38.8	36.4	37.2	57.1	55.8	53.7
Debt service	154.2	155.3	161.1	51.8	51.0	53.6	11.2	12.0	9.8
Interest payments	66.1	57.1	61.5	28.4	18.2	20.2	5.1	5.6	4.8
Official (%)	27.6	39.3	40.8	18.9	42.4	42.4	42.7	32.9	36.6
Private (%)	72.4	60.7	59.2	81.1	57.6	57.6	57.3	67.1	63.4
Principal payments	88.0	98.2	99.6	23.4	32.8	33.4	6.1	6.4	5.0
Official (%)	28.4	30.3	33.1	31.2	31.2	36.4	31.5	30.3	42.2
Private (%)	71.6	69.7	66.9	68.8	68.8	63.6	68.5	69.7	57.8
Debt-service ratio (%)[b]	19.9	16.3	16.3	31.5	27.1	26.7	16.4	14.5	11.7
Average interest rate on new commitments (%)[c]	6.6	6.1	n.a.	7.5	6.7	n.a.	4.1	2.9	n.a.
Official (%)	5.0	5.4	n.a.	6.3	6.9	n.a.	3.4	2.8	n.a.
Private (%)	8.0	6.8	n.a.	8.2	6.6	n.a.	7.1	4.9	n.a.
Disbursements	121.5	160.0	171.2	34.1	37.9	44.9	10.5	8.5	7.7
Official (%)	39.1	31.2	35.6	38.1	31.1	38.0	61.9	77.2	81.9
Private (%)	60.9	68.8	64.4	61.9	68.9	62.0	38.1	22.8	18.1
Net resource flows on long-term lending[d]	33.5	61.8	71.1	10.7	5.1	11.6	4.4	2.1	2.8
Net transfers on long-term lending[e]	−32.6	4.7	10.2	−17.7	−13.1	−8.6	−0.7	−3.5	−2.1

NOTE: Stock, flow, and economic data cover 148 countries of which 129 report to the World Bank Debtor Reporting System.
n.a. Not available.
a. Preliminary.
b. Debt service as a percentage of exports of goods and services.
c. Covers the countries reporting to the World Bank Debtor Reporting System.
d. Disbursements minus (actual) principal repayments.
e. Net resource flows minus (actual) interest payments.
SOURCE: World Bank.

year in succession, private net flows exceeded official ones, an occurrence otherwise not experienced since the onset of the debt crisis of the early 1980s. East Asian and Latin American countries continued to borrow actively in financial markets, as falling short-term and long-term international interest rates and an intense (if temporary) vogue for emerging market debt facilitated a substantial increase in bond issuance. Ten countries—Argentina, Brazil, Mexico, and Venezuela in Latin America; China, Korea, and Thailand in East Asia; and the Czech Republic, Hungary, and Turkey in Europe—are estimated to have raised over $34 billion in public and private bond placements.

Official net flows increased sharply by $8 billion, to $28 billion. Net flows from multilateral sources, including the World Bank, are estimated to have risen to around $18 billion, up from $12 billion in 1992 (see Table 2-4). Bilateral lending was estimated to have risen by 22 percent, to almost $10 billion. The share of concessionality in official debt is also estimated to have risen, reflecting the restructuring of nonconcessional debt on concessional terms in Egypt, Poland, and those countries benefiting

Table 2-4. **Long-term Financial Flows to Developing Countries, 1986–93**
(billions of US dollars)

Item	1986	1987	1988	1989	1990	1991	1992	1993[a]
Long-term aggregate net resource flows	64.0	67.8	74.1	79.4	102.2	121.2	156.6	176.6
Official development finance	44.0	43.9	40.8	41.1	59.2	63.0	54.6	63.4
Official grants	16.0	16.7	18.3	19.0	28.5	32.9	34.5	35.5
Net official loans	28.0	27.2	22.5	22.1	30.7	30.1	20.1	27.9
Bilateral	12.8	12.2	11.4	10.4	15.9	15.2	7.9	9.6
Multilateral	15.2	15.0	11.1	11.7	14.8	14.9	12.2	18.3
Net private loans	9.2	8.6	11.0	10.1	12.9	13.8	41.7	43.7
Commercial banks	1.8	1.1	7.9	3.9	−2.5	5.4	18.5	n.a.
Bonds	0.8	1.0	2.9	4.2	2.3	7.4	6.3	n.a.
Others	6.7	6.5	0.2	2.0	13.1	1.0	16.8	n.a.
Foreign direct investment	10.1	14.5	21.2	24.7	26.3	36.9	47.3	56.3
Portfolio equity investment[b]	0.6	0.8	1.1	3.5	3.8	7.6	13.1	13.2
Long-term aggregate net transfers[c]	−5.0	−3.0	−5.4	2.2	25.6	44.5	79.6	91.5
Interest on long-term debt	57.6	58.3	66.1	60.2	59.1	59.6	57.1	61.5
Profit remittances on FDI	11.4	12.4	13.4	17.0	17.6	17.0	19.9	23.6

n.a. Not available.

a. Preliminary.

b. World Bank staff estimates available since 1990 only.

c. Long-term aggregate net resource flows minus interest payments and reinvested and remitted profits.

SOURCE: World Bank.

from enhanced Toronto terms, as well as new concessional flows to sub-Saharan Africa, the Central Asian republics, and Viet Nam.

Voluntary debt-reduction operations, including official debt forgiveness by key Arab creditors to countries in the Middle East, are estimated to have reduced debt by about $9 billion in 1993, bringing the total of such reductions since 1988 to almost $100 billion. The "Brady" type of debt and debt-service reduction operation carried out by Argentina in April 1993 reduced the face value of its debt by close to $3.3 billion. Jordan came to an agreement with its commercial creditors in December 1993 to restructure an estimated $900 million of principal and arrears. The Dominican Republic, after reaching agreement in principle with bank creditors in May 1993 to restructure $1.1 billion of principal and arrears, continued to make progress towards a final agreement, while Bulgaria reached an agreement in principle with its creditor banks on restructuring $9.3 billion of commercial bank debt. Brazil also continued discussions on a restructuring of about $50 billion of obligations.[2]

Use of the other main venue for commercial debt reduction, the Debt- reduction Facility for IDA-only Countries, also increased. This facility, created in 1989, provides grants to eligible IDA members to reduce their commercial debt. Significant bilateral official cofinancing support has also been made available for facility-supported operations. By the end of 1993, five operations had been completed: Niger and Mozambique in 1991, Guyana in 1992, and Uganda and Bolivia in 1993. These operations extinguished $623 million of principal in commercial debt at an average price of 14 cents on the dollar. Similar buyback operations were in preparation for another ten countries: Albania, Ethiopia, Guinea, Mali, Mauritania, Nicaragua, São Tomé and Principe, Sierra Leone, Tanzania, and Zambia.

Restructuring of official bilateral debt under Paris Club auspices also contributed to debt reduction. During 1993, agreement was reached with eleven countries to reschedule or restructure $1.2 billion in debts. Six of the agreements—with Benin, Burkina Faso, Guyana, Mauritania, Mozambique, and Viet Nam—were reached under enhanced Toronto terms. In November 1993 the French government canceled F800 million of the debt of four CFA countries, and, in the wake of the devaluation of the CFA franc in January 1994, France proposed canceling another F25 billion owed by the CFA Zone countries affected by the exchange-rate adjustments. The focus of the debt strategy, especially for the severely indebted low-income countries, continues to shift from repeated reschedulings to the maintenance of a positive cash flow as a means of accelerating the resumption of these countries' external viability.

[2] In April 1994, Brazil implemented the deal with its commercial creditors and exchanged old debt for new long-term bonds. The debt collateralized by the zero-coupon bonds amounts to $17.8 billion.

Accumulated interest arrears were reduced by about $10 billion in 1993, the second year in succession that arrears fell rather than increased. A large portion of this reduction came from clearance of arrears in Latin America, especially Peru, and the former Soviet Union. Rescheduled interest payments in 1993 were estimated at $15 billion, up slightly from the previous year's $14.2 billion.

Despite the increase in developing country debt stocks, key debt ratios did not worsen as economic and trade conditions improved. Although the ratio of developing countries' long-term debt to GNP rose to 31.7 percent from 29.6 percent in 1992, the increase partly reflected large currency devaluations that reduced the dollar value of GNP in some Middle Eastern, European, and Central Asian countries. Significant increases in the outstanding debt of East Asian and South Asian countries, as well as of the FSU, also contributed to the rise. The long-term debt service-to-exports ratio remained constant at 16.3 percent. This ratio has hovered around the 16 percent mark for four years in a row.

Capital Flows on the Increase

Aggregate long-term net resource flows to developing countries—defined as net flows of long-term debt, grants (excluding technical assistance), and equity investment (foreign direct and portfolio-equity investment)—are estimated to have increased by $20 billion to $177 billion in 1993 (see Table 2-4). Net flows of long-term debt of $72 billion were the largest single component of aggregate resource flows. Of these debt flows, $28 billion was from official creditors. Official creditors also provided grants of $36 billion, up $1 billion from 1992; official finance, therefore, amounted to $63 billion, up $9 billion from the previous year.

Net foreign direct investment (FDI) rose 19 percent, or $9 billion, to $56 billion. Equity-portfolio investment, which reached $13 billion in 1992, stayed at that level. In addition to FDI and portfolio investment, private flows in the form of long-term debt amounted to $44 billion. Private sources, therefore, are estimated to have been responsible for 64 percent of overall net resource flows to the developing countries, an increase of more than 150 percent since 1990. This amount, in constant dollars, matches the level attained in the early 1980s before the onset of the debt crisis.

Aggregate long-term net transfers to developing countries—defined as net resource flows less interest payments on long-term debt and profits on FDI—increased by $12 billion to $92 billion, as increased net flows more than offset the increase in interest and profits. Net transfers to developing countries were positive for the fifth consecutive year. They were also substantial, amounting to 2.1 percent of developing country GDP, an increase from 1.8 percent in 1992.

Because the flow of FDI to industrial countries declined, developing countries are estimated to have increased their share of global FDI from 31 percent in 1992 to around 35 percent. An improved economic climate has made foreign investment attractive in many countries; privatization of state-owned enterprises has also boosted inflows, especially in Latin America and Eastern Europe. China, by far, was the largest recipient of FDI, with $15 billion flowing into the country in 1993, up $4 billion over the 1992 total.[3] In general, FDI continues to be concentrated in a limited number of developing countries: Five countries—in order of FDI amounts, China, Mexico, Argentina, Malaysia, and Thailand—received 59 percent of FDI flows. Regionally, FDI favored East Asia ($25 billion), Latin America ($18 billion), and Europe and Central Asia ($9 billion). Flows to most low-income countries were stagnant, however, reflecting the slow growth of official flows and the lack of access of most of these countries to private capital markets. In some instances, low-income countries have suffered from a lack of enthusiasm by the private sector—for example, commercial banks in sub-Saharan Africa.

Portfolio-equity flows appear to have been similarly concentrated, with three quarters of the $13 billion total going to East Asia and Latin America. Developing country securities are currently underrepresented in the portfolios of industrial country investors, given their big diversification benefits and higher risk-adjusted returns. If countries persist with their policy reforms, a gradual rebalancing of these growing portfolios is likely to increase private flows to developing countries significantly. At the same time, such flows are likely to be more volatile than FDI because they are more sensitive to global interest-rate movements and to positive or negative "bandwagon" effects.[4]

Primary Commodity Developments

Primary commodity market trends in 1993 were mixed, with nonoil commodity prices rising modestly and oil prices falling sharply once again. The dollar index of nonoil commodity-

[3] These figures may be inflated by Chinese capital that is rerouted through Hong Kong back into China and then recorded as FDI.

[4] The turbulence early in 1994 in the emerging country bond markets is a testament to the volatility of such flows.

***Table 2-5.* Commodity Prices, 1986–93**
(average annual percentage change)

Commodity price	1986–91	1991	1992	1993
In current-dollar terms				
Food and beverages	−4.4	−2.1	−6.6	0.7
Nonfood agriculture	4.6	−0.8	−4.9	−5.4
Metals and minerals	6.1	−8.1	−1.4	−14.6
Total nonoil	−0.9	−3.0	−4.1	1.4
Petroleum	7.7	−18.4	−0.5	−11.6
In real terms[a]				
Total nonoil	−5.5	−5.1	−8.2	1.0
Petroleum	2.7	−20.2	−4.6	−12.1
In special drawing rights (SDRs)				
Total nonoil	−3.8	−3.8	−6.9	2.3
Petroleum	4.3	−19.1	−3.3	−10.8

NOTE: Weights in the commodity price indexes are commodity exports of all developing countries.

a. Deflated by unit-value index of manufactures exports from the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States) to the developing countries.

SOURCE: World Bank.

prices was 1.4 percent higher than in 1992, supported by gradually reviving growth in the industrialized countries, continued growth in the developing countries, and lower international interest rates (see Table 2-5). In terms of constant 1990 dollars (using the unit-value index of exports of manufactured goods from the five largest industrialized countries to the developing countries as the deflator) nonoil prices were up 1 percent. By either measure, the slight increase in 1993 was the first in five years and followed a 27 percent fall (in constant dollar terms) during the period 1988–92. Indeed, constant dollar prices in 1993 were almost 50 percent below their postwar average. If the rise in the nonoil commodity price index was mild, it was at least fairly steady over the course of the year; by the fourth quarter, prices were 3.7 percent above the cyclical low reached in the same period of 1992. On a fourth quarter-to-fourth quarter basis, the largest contributions to the pick-up in prices were made by beverages, grains, and timber.

Metals and minerals suffered the steepest price decline of any commodity group in 1993, averaging 14.6 percent lower than in 1992. In constant dollar terms, the price index of this group fell to its lowest level in the whole postwar period. Prices for all the main industrial metals (copper, tin, nickel, aluminum, lead, zinc, iron ore) fell sharply; only precious metals prices moved higher. Overall world demand for industrial metals was broadly flat or lower than in the previous year, as increased demand in the United States and in the developing countries was offset by weakness in Europe, Japan, and the transitional economies of Central and Eastern Europe and the FSU. Surplus output capacity and higher world production added to the downward pressure on prices in aluminum and iron ore. Increased exports from Russia affected the aluminum and nickel markets. Late in the year, lead, zinc, and nickel prices rallied to varying degrees, reflecting the more substantial production cutbacks that have taken place in these industries.

Crude-oil prices fell by $2 a barrel, or 11.6 percent, to $15.30. Much of the decline occurred in the second half of the year. The pressure on oil prices derived from several sources. A weak increase in demand by the industrialized countries was more than offset by higher output from the North Sea and Canada. Although production fell steeply in the FSU and Eastern Europe, consumption fell a little more steeply yet, releasing more oil to the market. Finally, although demand for oil increased in the developing countries (by about 1 million barrels a day), output in these countries increased even more (by about 1.2 million barrels a day). OPEC countries were responsible for two thirds of the production increase.

World Trade Growth Slows

The rate of growth in the volume of world merchandise exports slowed to an estimated 2.6 percent in 1993 (see Table 2-6). The two most important reasons for the slowdown were the recession in Europe (which curbed intra-Europe trade, the largest part of the trade of individual European countries,[5] as well as imports from the rest of the world) and sluggish

[5] Because of the merger in trade-accounting procedures in the European Union, it is generally thought that intra-European trade was underreported.

***Table 2-6.* Selected Trade-performance Indicators, 1970–93**
(average annual percentage change)

Country group and indicator	1970–80	1980–90	1991	1992	1993[a]
Low and middle-income countries[b]					
Import volume	3.5	0.8	11.3	8.6	6.5
Export volume	2.7	3.6	11.1	5.6	3.8
Terms of trade	0.7	−3.3	−5.5	−0.8	−1.7
Sub-Saharan Africa[c]					
Import volume	−0.5	−4.9	8.8	−1.0	4.0
Export volume	−0.7	2.1	2.3	1.9	2.4
Terms of trade	−0.1	−5.8	−8.7	−4.2	−9.0
Asia					
Import volume	7.3	7.0	16.4	9.4	11.2
Export volume	8.5	9.6	16.2	12.5	7.4
Terms of trade	−0.8	−1.7	−0.2	−0.3	1.7
Europe and Central Asia					
Import volume	2.4	3.5	2.4	−1.0	0.8
Export volume	4.0	3.0	13.3	−1.4	−4.0
Terms of trade	−0.9	1.2	−9.8	−0.5	−0.3
Middle East and North Africa					
Import volume	5.7	−4.5	3.6	10.2	1.0
Export volume	−2.4	−1.6	9.3	−0.4	1.2
Terms of trade	4.6	−7.2	−12.9	−0.2	−7.2
Latin America and the Caribbean					
Import volume	0.1	−2.5	21.0	19.0	7.6
Export volume	2.5	2.7	5.0	6.3	5.6
Terms of trade	−0.3	−2.8	−3.7	−3.3	−3.7
Memorandum item					
World export volume	4.2	4.6	6.1	3.5	2.6

NOTE: Trade volumes measured in constant 1987 prices and exchange rates. Terms of trade are calculated as the ratio of export price to import price.

a. Estimated.

b. Including republics of the former Soviet Union.

c. Excluding South Africa.

SOURCE: World Bank.

growth in Japan. The recovery in the United States, which caused demand for imports to rise, was not sufficient to offset the dampening effect on world trade of the adverse conditions in Europe and Japan. Estimates by the GATT suggest that trade in commercial services may have increased by only 3 percent in nominal terms to reach $1,030 billion, as against a 12 percent rise in 1992.

Reflecting these conditions, the growth of merchandise export volumes from the low-income and middle-income countries decelerated to an estimated 3.8 percent. Export growth in Asia slowed from 12.5 percent to a still robust 7.4 percent, while Latin American export growth slowed from 6.3 percent to 5.6 percent. Exports from the Europe and Central Asia region, with their greater focus on Western European markets, fell 4 percent.

Two developments in 1993—the conclusion of the Uruguay Round of the GATT and of the NAFTA among Canada, Mexico, and the United States—underlined the importance for the future of two coexisting trends, one towards broad multilateral trading arrangements under the GATT and the other towards regional integration arrangements (RIAs).

According to the GATT Secretariat, the Uruguay Round is expected to generate an increase in merchandise trade of 12 percent by the year 2005 (or roughly $745 billion in 1992 dollars) over the level that would have existed by then had trade grown only at its average for the period 1980–91 (4.1 percent). The largest increases are expected in clothing (60 percent); textiles (34 percent); agricultural, forestry, and fisheries products (20 percent); and processed food and beverages (19 percent). Estimates

suggest that world income could increase by at least 1 percent, or some $212 billion to $270 billion annually (1992 dollars). Of that amount, $80 billion is expected to accrue to developing countries. The regional effects on exports and real incomes are likely to vary significantly, depending largely on the market-access provisions of the round (see Box 2-1).

Gains for Asia will be substantial. Quota-constrained exporters of textiles and clothing (mainly in Southeast Asia and East Asia, including China) will benefit greatly from the slow phaseout (over a ten-year period) of the Multi-Fibre Arrangement, with quotas increasing about 50 percent over seven years. Latin America will also gain, but proportionately less. Its food exporters (Argentina, Chile, and Uruguay, in particular) will benefit from reductions in agricultural subsidies. Latin American economies are also likely to benefit from reductions in tariffs on metals and minerals, and they have little to lose on preferences. Sub-Saharan Africa's gains from the Uruguay Round will be limited by the low proportion of manufactures in its exports. Nevertheless, faster world growth resulting from the round's partial liberalization of trade would provide additional support at the margin for prices of, and

Box 2-1. The Uruguay Round, Market Access, and the Developing Countries

For each of the 118 participants in the Uruguay Round, the increase in national income resulting from the successful conclusion of the round will come from two principal sources: first, more efficient use of domestic resources when domestic distortions, such as trade barriers, are reduced or removed; and second, increased access to markets of trading partners.

It is estimated that implementation of the market-access provisions of the round could add between $200 billion and $300 billion (in 1992 dollars) annually to world income. These figures are probably an underestimate; they do not include services, and no attempt has yet been made to capture the effects on productivity growth of greater openness in trade. Even at the "underestimated" level, full implementation of the Uruguay Round could boost the GDP of developing economies by almost $80 billion (in 1992 dollars) a year. Developing country gains from agricultural liberalization alone are estimated at between $20 billion and $60 billion a year, depending on the extent of each economy's liberalization.

Improved market access for agricultural and industrial products will result primarily from broad reductions in tariffs and more control of quantitative restrictions and subsidies. In contrast to the situation for industrial products, increased market access for agricultural products will involve limiting the use of domestic support policies. Reduction of export subsidies by industrial countries will boost the competitiveness of exports from developing countries.

The effect of the reduction in most-favored-nation (MFN) tariffs on individual suppliers depends on whether the importing country gives the product MFN, preferential, or free-trade treatment. For MFN imports there is an unambiguous increase in the volume of sales in the importing country following a tariff reduction. In the case of imports already receiving preferential or free-trade-area treatment, the reduction in MFN tariff rates can reduce margins of preference, inducing buyers to switch to competing suppliers. Analyses suggest that the trade gains from reductions in MFN tariff rates are likely to outweigh the losses from preference erosion, even for exporters receiving preferences.

The reduction in duties that apply to developing countries is estimated at 34 percent—less than the 38 percent reduction on industrial products from all sources—and the figures for clothing and footwear (of particular interest to developing countries) are even lower. Nevertheless, the effects on trade creation will be large even for such products because existing tariff rates on them are the highest, and the percentage decline in the tariff-inclusive price in importing countries will be substantial. Moreover, where a quantitative restriction (rather than the tariff) is the binding restraint under the Multi-Fibre Arrangement, the extent of the increase in market access may be larger than the cut in the tariff alone would indicate.

A disappointing result of the agreement is that tariff escalation will continue for agricultural products. It was hoped that discrimination against processed commodities would be reduced, thus enhancing strategies for natural resource-based industrialization. But the agreed reductions in tariffs, whether viewed in absolute or percentage terms, do not clearly rise or fall with the level of processing.

Considerable progress has been made in the latest agreement toward the goal of increasing the proportion of tariffs that are bound (subject to commitments not to raise the tariff rate). This will significantly reduce exporter risk. For industrial products, virtually all tariffs in developed and transition economies are bound under current offers, and developing countries have offered to increase the proportion of bound tariffs to 65 percent. For agricultural products there is a substantial increase in the proportion of tariff lines subject to bindings, especially in the developing economies, where there is a fivefold increase (from 17 to 89 percent). For the first time in the GATT's history the proportion of bound tariff lines will be broadly the same for agricultural and nonagricultural products.

volume demands for, primary commodities of significance to the region. A point of concern to African countries is that reductions in tariffs will reduce the margin of preference enjoyed by the exports from African countries under current unilateral preferential arrangements such as the Lomé Convention. However, the limited nature of these preferences and the gradual phasing-in period of the new provisions are likely to limit adverse effects.

Over the next fifteen years, the NAFTA will remove barriers to trade and investment flows within North America; it also sets the stage for reforms in domestic policies to foster trade and competition within an area rivaling the European Union in economic size. The NAFTA's main effect will be to improve the growth prospects of Mexico, which is required by the agreement to liberalize its policies the most and which should consequently experience a significant boost in its exports. Economic models estimate that in the short term, the NAFTA will be responsible for increased exports to the United States of 11 percent and 9 percent from Mexico and Canada, respectively, while exports to the United States from elsewhere could fall by small amounts. One drawback is that the NAFTA's domestic content regulations could prevent the agreement's three member countries from relying on some low-cost (non-NAFTA) sources of production inputs—a factor that would restrict the ability of members to use their NAFTA tariff and nontariff preferences.

The passage of the NAFTA and the deepening of the European Union under its single-market program are illustrative of the renewed interest in RIAs, a trend referred to as the "new regionalism."

RIAs, which entail reciprocal negotiation of trade preferences among participants, can take several forms. These extend from preferential trading arrangements and free trade arrangements (under which participants levy lower, or eliminate, respectively, tariffs on imports from each other while maintaining independent trade policies toward third parties) to customs unions. In a customs union, members not only reduce tariffs among themselves; they also adopt a common foreign trade policy against nonmembers. Common markets, in turn, expand the parameters of a customs union by allowing free movement of labor and capital among members; in an economic union, members further expand those parameters by explicitly pursuing harmonization of their microeconomic and macroeconomic policies ("deep integration").

The trend towards increased regionalization of world trade is long standing. A recent GATT study shows that the amount of world trade occurring within regions as a share of world GDP rose from 7 percent in 1948 to 17 percent in 1990, driven mainly by the performance of Western Europe. However, this rise did not choke off trade between regions, as the amount of intraregional trade as a share of GDP has remained fairly stable at between 15 percent and 16 percent.

The future of "benign regionalism," which minimizes harm to outsiders and contributes to world trade and welfare, depends critically on a commitment to maintaining and furthering openness and multilateral cooperation among trading blocs. In this regard, the successful completion of the Uruguay Round has helped to alleviate concern that the "new regionalism" might substitute for multilateral trade liberalization. In recognition of the potential threat posed by RIAs, the Uruguay Round strengthens existing GATT rules that forbid barriers against third parties from rising through the creation of an RIA. Further, the round will strengthen surveillance of RIAs, an effort that will undoubtedly be pursued by the new World Trade Organization (WTO), which will succeed the GATT in 1995. The WTO, designed by the Uruguay Round participants to enforce the GATT's free trade rules, will have the power to levy trade penalties against countries by a semijudicial disputes procedure that will no longer allow countries to ignore findings against them.

Section Three
Major World Bank Programs: Fiscal Year 1994

World Development Report 1990 outlined a strategy for reducing poverty based on experiences from developing countries across the world. How this strategy should be implemented in the World Bank's operations was subsequently spelled out in three documents: the policy paper, *Assistance Strategies to Reduce Poverty*, the *Poverty Reduction Handbook*, and a World Bank Operational Directive on poverty reduction. The yardstick to evaluate the Bank's progress in implementing the poverty-reduction strategy is the extent to which the Bank is implementing the strategies articulated in the three documents.

During fiscal 1994, the Bank continued to make progress in implementing its poverty-reduction strategy both through its lending operations and a strengthened policy dialogue. Analysis is also being strengthened to ensure that the Bank's country-specific assistance strategies develop the most relevant mix of lending for each country, as well as to improve the targeting and design of its operations. The Bank, in both the central and regional vice presidencies, now systematically monitors how it supports government efforts to reduce poverty. At the planning stage, each adjustment operation is classified as to whether or not it is poverty focused, and each investment project is classified as to whether or not it is in the program of targeted interventions (PTI). Each region periodically outlines what progress is being made in implementing the Bank's poverty-reduction strategy and what special initiatives are being undertaken to strengthen these efforts. To strengthen both the technical and analytical tools being used in the Bank's operations, the central vice presidencies are supporting the regions by refining methodologies for analyzing policy issues, disseminating best-practice analysis and project design, and providing training.

Human Resources Development

Developing countries are turning to the Bank for intellectual leadership and financial assistance for investments in the human resources area. Aid donors are increasingly channeling their assistance to this area and are asking the Bank to coordinate the aid flows.

The Human Resources Development and Operations (HRO) vice presidency is the focal point of the Bank's human resources and poverty operations. Operational relevance and client orientation are the main criteria used for selecting tasks in the human resources development sectors.

During the past year, demand was also heavy for HRO's analytical services. The executive directors of the Bank, as well as the six operational regions, requested a number of analytical papers on several critical issues: higher education (see Box 3-1), gender policy, and population. The dissemination of information through the vice presidency's Working Papers series and Dissemination Notes, as well as through population and health/nutrition newsletters and the electronic network, has proven popular with task managers and external audiences alike.

Tools for Reducing Poverty. By a variety of measurements—through its lending program, development of country-assistance strategies and the policy dialogue, and analysis of poverty issues—the Bank continued to advance during the year in its work to reduce poverty.

The lending program for human resources development (comprising lending to education; population, health, and nutrition; and the social sector) continued to be robust during fiscal 1994, attracting $3,104 million in commitments (15 percent of total Bank commitments). Eighteen percent of all new IDA commitments—some $1,198 million—were directed toward human resources development. Lending for the agriculture and water supply and sanitation sectors, which play an important role in supporting the Bank's poverty-reduction efforts, increased by more than $400 million.

Lending for projects in the PTI was 25 percent of total investment lending (see Table 3-1). IDA commitments for the PTI, as a share of IDA investment lending, increased to 43 per-

Box 3-1. Higher Education—Lessons of Experience

Higher education is in crisis in all parts of the world, both developed and developing, a study by the World Bank finds. And, as might be expected, the crisis is most acute in the developing world, where fiscal constraints are tighter and pressures for expansion of enrollment are greater.

The study—the third in a series on education subsectors[1]—analyzes recent lessons of developing-country experience in higher education reform at both the national and institutional level to show how countries contemplating reform, or just starting on its path, might realize the goals of greater efficiency, quality, and equity in higher education. The study also charts the probable course of World Bank lending to the subsector in the years to come.

Based on a review of experience across countries, the study suggests—without trying to provide a blueprint for each country—that higher education reform might best be directed at (a) expanding the menu of higher education choice in terms of types of institutions and modes of delivery (which, concomitantly, would stimulate the development of private institutions); (b) providing incentives for public institutions to diversify sources of funding; (c) linking public funding closely to performance; (d) redefining the role of government in higher education; and (e) introducing policies explicitly designed to increase the quality and equity of higher education.

An expanded menu of tertiary education would find universities being complemented by other types of institutions such as polytechnics, short-cycle professional technical institutes, community colleges, and "distance" and "open-learning" programs. Typically, these higher-education supplements are often less costly to set up and operate and are therefore attractive to private entrepreneurs.

To relieve the financial burden imposed on public institutions by increasing enrollments, the World Bank study advocates sweeping reforms in the ways such institutions are funded. For example, students should be required to pay a greater share of their education costs;[2] public subsidies for noninstructional expenses—housing and meals, for instance—should be sharply reduced if not eliminated altogether; tax codes should be modified to encourage philanthropy by alumni and private industry; and public higher-education institutions should be encouraged to pursue income-generating activities. At the very least, governments should stop penalizing entrepreneurial activities as they do, for example, when they reduce budget allocations by the same amounts as public institutions make on "non-core" activities.

The study reports that, as a result of the crisis in publicly funded higher education, government's role in the subsector is being redefined.

cent.[1] Projects are included in the PTI if they include a specific mechanism for reaching the poor or if the participation of the poor significantly exceeds the proportion of the population as a whole.[2]

Of the twenty-three adjustment operations approved during the year, seventeen, or three of every four, were poverty focused.[3]

It is now widely acknowledged that participation by beneficiaries in the design and implementation of projects can often be an important determinant of project effectiveness. As a result, the Bank's use of participatory methodologies—including beneficiary assessments, participatory rural assessments, and participatory workshops to fine-tune project design—is on the rise. A preliminary review of fiscal 1994 operations shows that ninety-six out of the total of 228 projects included participation by primary stakeholders (individual beneficiaries, people affected in one way or another by the project, community organizations, user groups, and others such as producer groups and cooperatives).[4]

The salutary effect of beneficiary participation is now becoming clearer. A study of 121 rural water supply and sanitation projects,[5] supported by eighteen development agencies (including the Bank), throughout Asia, Africa, and Latin America, has revealed beneficiary

[1] The Bank takes very seriously its commitment to increase the shares of poverty-targeted investments and social-sector lending during the three-year period encompassed by the tenth replenishment of IDA resources (fiscal 1994–96). Care should be taken, however, not to use the PTI as the sole measure of the Bank's poverty-reduction efforts. In some cases, the greatest contribution to poverty reduction in a given country could come from the implementation of a well-designed adjustment program. In addition, many PTI projects are experimental and, as a result, loan amounts can be expected to be small. For these reasons, there may be natural fluctuations in the size of the PTI from year to year, although the trend line should be an increasing one.

[2] A description of each project in the PTI that was approved during fiscal 1994 can be found in the project summaries in Section Five of this *Annual Report*. The PTI projects are marked by an asterisk.

[3] A description of each poverty-focused adjustment operation that was approved during fiscal 1994 can be found in the project summaries in Section Five of this *Annual Report*. These operations are marked by a pound sign (#).

[4] A description of each project approved during fiscal 1994 with participation by primary stakeholders can be found in the project summaries in Section Five of this report. The projects are marked with a "†."

[5] Deepa Narayan. 1994. *The Contribution of People's Participation: 121 Rural Water Supply Projects*. The World Bank: Washington, D.C.

Rather than aiming at direct control of the entire subsector, a government's main responsibility is becoming that of providing an enabling policy environment—for private as well as public institutions—and of using the leverage of public funding to stimulate institutions of higher learning to meet national training and research needs more efficiently.

Encouraging an expanded menu of opportunities for higher education, providing incentives for diversifying funding sources, and relaxing governmental control are necessary elements for improving higher education. By themselves, however, they are insufficient. The Bank study goes on to say that the final element of the reform process must be implementation of policies that increase the quality of higher education and improve the access of traditionally disadvantaged groups. Greater equity of participation is important not only for economic efficiency but for social justice as well.

The Bank's latest examination of an education subsector points to the conclusion that higher education investments have lower social rates of return than do investments in primary and secondary education and that investments in basic education have a more direct impact on poverty reduction. As a result, the Bank will continue to give priority to lending for primary and lower secondary education.

Lending in support of higher-education reform, however, can be justified, as Bank financing helps countries free up some of the incremental public resources needed to improve quality and access at the primary and secondary levels. Properly designed projects also allow the subsector to operate more efficiently and at lower public cost. Higher education lending will be directed to countries prepared to adopt an education policy framework that stresses a differentiated institutional structure and a diversified resource base, with greater emphasis on private provision of services and private funding. In these countries, Bank lending is supporting, and will continue to support, sector-policy reforms, institutional development, and improvements in quality.

[1] The first study, on primary education, was discussed by the executive board in fiscal 1990, while policies for vocational and technical education and training were the subject of a board discussion in fiscal 1991.

[2] Cost-sharing cannot be implemented equitably, however, without scholarship programs that guarantee necessary financial support to academically qualified poor students unable to absorb the direct and indirect (foregone earnings) costs of higher education and without a functioning student-loan program to assist students who need to borrow for their education.

participation as the single most important element in determining the overall quality of implementation. Similarly, the Operation Evaluation Department's *Annual Report of Evaluation Results 1992* listed beneficiary participation and borrower ownership as two important features of the twenty-four operations classified as outstanding.

Fiscal 1994 marked the culmination of a three-year Bankwide learning process on participation, which has sought to review the Bank's experience in participatory approaches and to identify ways to support participation in borrower countries. The result—a report to the Bank's management, developed by a learning group of some fifty Bank staff involved in participatory work—has been widely reviewed by Bank staff and outside experts in participation. The report puts forward a number of recommendations, including ensuring that all projects under preparation include (a) a provision for systematically identifying and seeking the par-

Table 3-1. **Program of Targeted Interventions, 1992–94**
(millions of US dollars; fiscal years)

	1992	1993	1994
Total World Bank PTI lending	3,837	4,674	4,441
As share of investment lending (%)	24	27	25
As share of all Bank lending (%)	18	20	21
Total number of PTI projects	57	72	63
IDA PTI lending	1,828	2,137	1,853
As share of IDA investment lending (%)	43	41	43
As share of all IDA lending (%)	28	32	28
Number of IDA PTI projects	35	44	35

NOTE: Investment lending is defined as all lending except for adjustment, debt and debt-service reduction operations, and emergency-reconstruction operations. Data for FY92 and FY93 have been revised to reflect this definition.

ticipation of relevant stakeholders and (b) sharing responsibility for economic and sector work with a wide range of stakeholders. The report was a focus of discussions at a May 1994 workshop on participatory development, hosted by the Bank, which included sixty nongovernmental organization (NGO) representatives, staff from donor agencies, and academics. The workshop discussions helped prioritize the Bank's next steps in this area as it begins to mainstream participatory approaches in its work.

As a further means of encouraging a mainstreaming of participatory approaches, a $300,000 Participation Fund was established during the year to support a wide range of participatory initiatives in the Bank's lending and nonlending operations. The fund proved so popular among task managers that a $200,000 replenishment was approved to meet the heavy demand.

Activities financed by the Participation Fund included several workshops during project preparation involving beneficiaries, NGOs, and government staff in discussions about project design; workshops were also funded that involved local communities in the evaluation of participatory components of ongoing projects. Building on this precedent, a $2 million Fund for Innovative Approaches in Human and Social Development was set up toward the end of the fiscal year. The fund will support efforts to promote participatory approaches and will finance a limited number of social assessments of the potential impacts of proposed projects.

Country-assistance strategies and the policy dialogue increasingly address poverty in a wide context. In particular, poverty issues are being addressed comprehensively, both within the context of human resources development and more fully within the overall country-assistance strategy (including macroeconomic and sector policies) in the more than three dozen countries for which poverty assessments or other poverty analyses have been completed. In the policy dialogue on country-assistance strategies, poverty reduction is high on the agenda. In particular, Bank staff are discussing poverty reduction more frequently than before with finance and planning ministries in the context of macroeconomic and sectoral policies. In several countries (Belarus, Ecuador, and Sierra Leone, for example), special units have been created within those ministries to integrate the goal of poverty reduction more explicitly into economic planning.

In the area of analysis of poverty issues, significant progress was made in preparing poverty assessments and other analytical work in fiscal 1994.[6] Eleven assessments were completed, bringing the number of completed assessments to thirty-nine. By the end of fiscal 1995, ninety-four assessments for eighty-three countries are scheduled to be completed. Strides were also made during the year toward overcoming the lack of good household data on poverty, although this remains a problem in many countries. The most progress in data collection and analysis has been made in the Africa region, where acquisition of recent household data has accelerated.

In a report to the Bank's executive directors that was later made public,[7] several lessons from the Bank's past poverty-reduction work, as well as challenges for the future, were highlighted.

- The challenge for future country-assistance strategies is to ensure that they address the main poverty problems in each country, that they complement efforts by government and donors to reduce poverty, and that the appropriate mix of broad-based and targeted lending instruments evolves for each country.
- Clearly the Bank is challenged to complete poverty assessments for all borrowing member countries, to continue to improve their quality, to enhance the quality of analysis through greater coordination among donors, and to ensure that assessment findings are fully integrated into country-assistance strategies.
- Development of poverty-monitoring systems and expansion of countries' capacity to implement them is a priority. To date, only a few poverty assessments have evaluated a country's statistical system for monitoring poverty; even less attention has been given to developing action plans for implementing poverty-monitoring systems over time.

Activities on Women in Development (WID). According to a report written for the September 1993 meeting of the Development Committee, the Bank has made progress in implementing its operational strategy on WID. That strategy aims to reduce gender disparities and enhance women's participation in the eco-

[6] Poverty assessments are crucial to the Bank's poverty-reduction efforts. A poverty assessment provides the basis for a collaborative approach to poverty reduction by country officials and the Bank. It also helps to establish the agenda of issues for the policy dialogue between the government and the Bank and between the government and agencies of the international donor community. The process of completing assessments for all IDA borrowers has taken longer than originally planned. This is mainly because of the time-consuming process of overcoming data constraints, developing appropriate analytical approaches, and increasing government involvement in the process.

[7] World Bank. 1994. *Poverty Reduction and the World Bank: Progress in Fiscal 1993*. Washington, D.C.

nomic development of their countries by integrating gender consideration in country-assistance programs. Of all projects approved by the Bank in fiscal 1993, about one in three included gender-targeted interventions.

The integration of WID issues into the Bank's economic and sector work continues. Almost half of the Bank's economic and sector reports contain WID-related analytical work. Gender issues are also increasingly addressed in poverty assessments, particularly in countries where the number of female-headed households is disproportionately high and where there are significant disparities in social indicators between males and females.

According to the 1993 progress report, various lessons have already been learned from the preparation by the Bank of best-practice papers on education, agriculture, safe motherhood, and enterprise development and financial services. In agriculture, for example, it has been found that targeting special services to women does not guarantee success. Rather, it is more effective to ensure that women's programs become part of the mainstream extension services and to encourage women farmers to participate in the services' design. Projects also need to be tailored to specific country or regional circumstances so that women's roles and needs can be properly taken into account.

Lessons learned by the Bank, by other donors, and NGOs suggest some promising approaches to overcoming the barriers to improving the status and productivity of women. That combined experience points unambiguously to five operational strategies that are key to improving the status and productivity of women: expanding the enrollment of girls in school, improving the health of women, increasing their participation in the formal labor force, expanding their options in agriculture, and providing financial services to them.

Until quite recently, WID programs, including those of the Bank, tended to treat women as a special target group of beneficiaries in projects and programs. According to a recent Bank policy paper,[8] development organizations have begun to recognize, however, that the best way to ensure that women are not left at the margin of the development process is to analyze the relative roles and responsibilities of both men and women and to apply the insights gained from this analysis to the design of projects and programs. This new approach, which focuses on gender relations in the family and in the community rather than on women in isolation, constitutes the "gender and development" approach. This is the focus that the Bank is now promoting to enhance women's participation in development.

The policy paper outlined the rationale and strategy for integrating gender in Bank operations. Addressing gender issues is essential for the realization of the Bank's goal of reducing poverty. In addition, reducing gender disparities and enhancing women's participation in economic development are entirely compatible with the promotion of growth as well as with environmentally sustainable development. The Bank is committed, therefore, to integrating gender issues into the mainstream of its operational, as well as its analytical, activities.

A new operational policy directive, issued in April 1994, states that it is the Bank's intention to reduce gender disparities and enhance women's participation in economic development by integrating gender issues into country-assistance strategies. These issues will be identified through the use of various instruments (poverty assessments, country WID assessments, public expenditure reviews, and other economic and sector work). Objectives and interventions for carrying out gender strategies are then to be reflected in the Bank's lending program and the design of lending operations. Implementation is to be monitored as part of the country-implementation review.

The Bank is only one contributor on the international scene that seeks to advance women's status and participation in economic development. Other donors, as well as international, national, and local institutions are also playing important roles in closing the gender gap. The Bank will continue to learn from, and collaborate with, other agencies and capitalize on a wide range of expertise that exists in advancing gender issues on the development agenda. All these efforts, however, will be fruitful only with governments' leadership, commitment, and collaboration.

Population, Health, and Nutrition. Rapid population growth in the world's poorest countries is a matter of considerable concern because of its possible negative effects on efforts to reduce poverty, generate economic growth, and preserve the environment.

Although the global picture is one of continued growth, rates of growth have begun to slow in many developing countries. The slowing of growth reflects a pervasive shift in reproductive attitudes and behaviors in those countries. The pace of change varies by region, but fertility declines are widespread.

Over the past three decades, the percentage of married women in developing countries using some method of contraception has in-

[8] World Bank. 1994. *Enhancing Women's Participation in Economic Development*. A World Bank Policy Paper. Washington, D.C.

creased from 10 percent to 51 percent—from 40 million users in 1960 to some 365 million in 1990. Because of the large increase in the number of women of reproductive age, however, the total number of women not using contraception has declined little, leaving an estimated 350 million still to be served.

During the 1990s, an additional 170 million individuals will move into their reproductive ages in developing countries; another 180 million are projected for the following decade. Just to maintain the current level of coverage, services will have to be expanded to accommodate 80 million to 90 million more contraceptive users during each of these two decades. That still leaves the challenge of providing services for at least 100 million married couples and at least 20 million unmarried individuals, many of whom are at risk of contracting sexually transmitted diseases, as well, because needed contraceptive services are not available or are of poor quality.

As the number of potential clients increases, the definition of what constitutes a population program is expanding. It is now widely accepted that programs must meet a wide range of the reproductive health needs of women and men.[9] In addition, they are increasingly addressing other health concerns related to sexual activity and reproduction—the AIDS epidemic and other sexually transmitted diseases, for example. Similarly, the scope of programs is also expanding to include such groups as unmarried adolescents and males, particularly those who engage in high-risk sexual behavior, whose needs have not been served by traditional modes of service provision.[10]

The Bank's role in population has been shaped by its comparative advantage in a number of areas: It brings strength in sector and economic analysis, which together provide a basis for policy dialogue between the Bank and borrowing countries. This strength is particularly relevant in the current population-policy environment, in which fertility reduction is increasingly being pursued as part of a broad range of social policies, particularly those that improve the status of women, such as education.

The Bank has been an active player in the population field for the past twenty-five years, lending more than $1.7 billion to support population activities through more than 100 projects. The value of the current portfolio stands at slightly more than $1 billion, representing seventy-three projects under Bank supervision. Many Bank projects include family planning within larger health and nutrition projects, leading to mutually reinforcing effects for both better health and increased demand for family planning. Commitments in fiscal 1994 totaled $199 million for family-planning and population-policy components in fourteen health and social development projects. New commitments vary considerably from year to year, but the trend has been steadily upward.

The increasing complexity of population projects offers particular challenges when it comes time for project supervision. Some of the Bank's more successful population and health projects—in Bangladesh and Kenya, for example—have included provision for resident management staff to strengthen supervision capacity. The experience of other donors also suggests a strong relationship between the intensity of in-country management effort and project effectiveness. The Bank has been making a special effort to improve supervision and strengthen its skill mix in needed technical areas and to assure that it is responsive to borrower needs.

Health sector reform is a high priority. Since the publication in July 1993 of *World Development Report 1993*, which was devoted to the issues of health reform, assistance has been requested by more than three dozen countries for assessing the burden of disease. Guidelines for health-sector reform are now being prepared; they will be published in fiscal 1995 as a companion volume to *World Development Report 1993*. Also under study are managed-care arrangements in both developing and industrialized countries, the efficacy of differing systems of health care, and pharmaceutical policies in a number of countries. The goal of the last-named study is to assist borrowing member countries in formulating and enforcing policies that improve the access to, and quality of, essential drugs.

The upward momentum that has characterized recent lending trends for nutrition within Bank projects continues, assisted, in part, by

---

[9] The Development Committee, for example, in its April 1994 communiqué following its spring meeting, noted that an integrated population policy must recognize the links between economic growth, population, poverty reduction, health, investment in human resources, and environmental degradation. "Family planning," the communiqué went on to say, "is only one of the available instruments and needs to be seen in the broader context of changing social patterns and the increased awareness of women's role."

[10] The changing nature of population programs and the challenging population issues of this decade and beyond will be the subject of the 1994 International Conference on Population and Development—the third in a series of United Nations conferences that started in Bucharest in 1974 and continued in Mexico City in 1984. These meetings produced and refined the World Population Plan of Action, which has provided donors and developing countries with a framework for population policies and action programs over the past two decades. The 1994 conference will be held in September in Cairo.

the recommendations for cost-effective interventions in *World Development Report 1993*. An additional focus within the Bank was generated by the convening in late November of the Bank's first major conference on hunger, "Overcoming Global Hunger—A Conference on Actions to Reduce Hunger Worldwide."

Children three years old and younger and pregnant and lactating women remain the primary target of nutrition operations in Bank projects. Several recent projects, however, such as fiscal 1994's Maternal and Child Health Project in Argentina, include integrated early childhood-development components that address the full range of health, nutritional, and educational needs of young children in their most critical years of development.

Overall lending for population, health, and nutrition has increased substantially, from an annual average of $103 million in new commitments during the four-year period fiscal 1981–84 to an annual average of $1,307 million during the period fiscal 1991–94.[11]

Bank investments in education (which amounted to $2,068 million in fiscal 1994) are increasingly targeted toward getting girls into school and eliminating existing gender disparities in participation, achievement, and attainment; the objective is to empower women as producers, reduce their dependence on husbands and sons, and lower the fertility rate.

The HRO vice presidency is actively involved in improving the design and implementation of the Bank's education projects. During the past year, for example, senior staff were actively involved in the implementation of a complex and comprehensive primary education project in Uttar Pradesh—one of the most educationally deprived states of India. The project, supported in fiscal 1993 by a $165 million IDA credit, focuses on the education of girls and disadvantaged ethnic minorities. The project design and its implementation reflect a deep government commitment to the concept of education for all, both at the central government and at the grassroots level. This commitment has manifested itself in the ways that staff and other resources have been assigned to the project, in the interest of top-level civil servants and grassroots-level NGOs in its implementation, and in the exceptionally fast pace with which project baseline studies and infrastructure are being carried out, facilitating subsequent evaluation and measurements of project achievements. The results of this project are now being replicated in a much larger, countrywide project.

At the other end of the education spectrum, HRO staff have been involved in the design and implementation of higher education projects in countries that are changing from centrally planned economies to market-responsive ones. One such project is in Hungary, which has introduced reform to its higher education system by promoting the concept that participating institutions must compete for investment funds by submitting funding proposals to an impartial national agency. This agency assesses the submitted proposals on their educational and economic merits through well-understood and transparent criteria and procedures that emphasize economy and efficiency in the use of public resources. A recent midterm review of the results has been encouraging; the new procedures are being expanded to replace the entire higher education funding mechanism, and neighboring countries have shown interest in replicating the system.

In July 1992, Lewis Preston, in a letter to 1,400 parliamentarians from twenty-six countries about future lending by the Bank, wrote that the Bank would increase its support for education projects in the period fiscal 1993–95 over levels of the preceding three-year period. Commitments in fiscal 1993 and 1994 totaled $4,074 million, $336 million higher than in the period fiscal 1990–91. Mr. Preston also said that support by the Bank for basic education during fiscal 1993–95 would rise above the 42 percent mark achieved in fiscal 1992. Such support amounted to 45.7 percent and 30.2 percent of total lending for education in fiscal 1993 and 1994, respectively.

External Relations. The Bank is a partner with numerous United Nations organizations and a variety of other international and bilateral agencies, as well as with major NGOs. The HRO vice presidency pays close attention to nurturing these relationships, to listening, to sharing understanding of the problems being faced, and to building collaborative relationships.

During the past year, the Bank shared the podium in United Nations' fora to address development issues of global reach. The Bank's follow-up to environmental activities after the

[11] In July 1992, Lewis Preston, president of the World Bank, said that the Bank planned to substantially increase lending for population, health, and nutrition—in both dollar-volume terms and as a percentage of total commitments—during the period fiscal 1993–95 as compared with the three previous years. During fiscal 1990–92, lending to the sector averaged $1,154 million annually and represented 5 percent of total Bank lending. During fiscal 1993–94, lending for population, health, and nutrition averaged $1,349 million and amounted to 6 percent of total commitments. Mr. Preston also projected that lending for primary health would be more than 5 percent of total lending over the same period. In fiscal 1993 and 1994, commitments in support of primary health amounted to 6 percent and 4 percent of the total, respectively.

United Nations Conference on Environment and Development was discussed in the UN's Inter-Agency Committee on Sustainable Development and in the Commission on Sustainable Development. The Bank also addressed environmental issues at such UN gatherings as the Small Island Economies Conference (held in Barbados) and the Disaster Reduction Conference (held in Japan).

The Bank actively participated in all phases of the preparations for the Third Population and Development Conference, scheduled for September 1994 in Cairo. The Bank provided travel grants to developing country NGOs to ensure their full participation in the conference and its preparation. It also participated in the preparations (including provision of background papers on social and human resources development and grant funds to ensure NGO participation) for the Social Summit that will be held in Copenhagen in 1995. The Bank also cosponsored, with the summit's secretariat and the government of the Netherlands, a meeting held in June 1994 in Zambia of a preparatory expert group on poverty. The Bank's contribution to the Conference on Women and Development—to be held in Beijing in 1995—included a special study on the economic potential of women, while the Second (Economic and Financial) and Third (Social, Humanitarian, and Cultural) Committees of the UN General Assembly provided a forum for presenting updates on major Bank activities.

The Bank continues to coordinate project-focused work with UN agencies in areas of mutual involvement, including food security with the Food and Agriculture Organization of the UN; health and education with the United Nations Children's Fund (UNICEF); employment with the International Labour Office; AIDS and other health interventions with the World Health Organization; environmental issues with the United Nations Environment Programme (UNEP); basic education with the United Nations Educational, Scientific, and Cultural Organization, UNICEF, and the United Nations Development Programme (UNDP); and water and sanitation and technical assistance with the UNDP. The Bank remains a cosponsor (with the UNDP) of the Energy Sector Management Assistance Programme (ESMAP), designed to assist countries in developing environmentally sound energy strategies and investments.

Cooperation with Nongovernmental Organizations. Cooperation with NGOs continued to expand in terms of both lending operations (see Tables 3-2 and 3-3) and the policy dialogue. Some 50 percent of all Bank-approved projects involved NGOs.

In the realm of lending operations, NGOs increasingly are designing, preparing, implementing, and evaluating subprojects financed through Bank-assisted projects, while the expansion of the policy dialogue has led to increased beneficiary ownership of Bank-assisted projects. Social-fund projects worldwide and food-security and nutrition projects in Africa have benefited from NGO involvement, while Pakistan's Social Action Program is an example of the Bank's increasing commitment in support of participatory development. In the Pakistan program, the Bank created a $10 million Participatory Development Program Fund to support various implementing organizations in their efforts to involve communities in the delivery of basic social services, such as primary education and health care and rural water supply.

One of the Bank's main goals in collaborating with NGOs has been to increase the institutional capacity of project-implementing organizations. To this end, the Bank has provided, or has made arrangements with other organizations (very often NGOs) to provide, capacity-building assistance to various NGOs and communities. One such example is the capacity-building exercise for indigenous NGOs that has been launched in several Latin American countries with grants from the Bank's Institutional Development Fund. This exercise stemmed directly from requests from indigenous NGO leaders who attended the Latin American Second Interagency Workshop on Indigenous Development, held in Washington, D.C. in September 1993.

The Bank is also helping governments analyze their relationship with NGOs with a view to constructing a more enabling environment for NGO activities. For example, it convened a workshop in Uganda that brought together NGOs, government officials, and donors to discuss specially prepared reports on the country's NGOs and the policy environment in which they operate and to formulate a national action plan to promote the role of NGOs in poverty reduction.

In the twice-yearly meetings of the Bank-NGO Committee, topics such as popular participation and the social effects of structural adjustment programs were discussed. The Bank also consulted on an *ad hoc* basis with NGOs on issues of particular concern. In May 1994, for example, discussions with NGO representatives were held on the implementation experience of the Bank's forest policy in preparation for a review in fiscal 1995 of the policy by the Bank's executive directors. A separate consultation with NGOs in May 1994 helped the Bank evolve strengthened indicators of development impact. Consultations were also

Table 3-2. **Patterns in World Bank-NGO Operational Collaboration, Fiscal Years 1974–94**

	Total 1974–91		1992		1993		1994	
	No.	%	No.	%	No.	%	No.	%
By region (number of projects)								
Africa	204	n.a.	32	42*	31	41*	38	63*
East Asia and Pacific	45	n.a.	8	17*	12	27*	22	51*
South Asia	59	n.a.	9	39*	11	42*	15	79*
Europe and Central Asia	6	n.a.	4	29*	2	7*	10	24*
Latin America and the Caribbean	59	n.a.	12	27*	14	28*	24	50*
Middle East and North Africa	18	n.a.	3	18*	3	16*	5	31*
Total	391	10*	68	31*	73	30*	114	50*
By sector (number of projects)								
Adjustment related (incl/social funds)	27	7	8	12	5	7	12	11
Agriculture/rural development	150	38	22	32	14	19	36	32
Education	41	10	6	9	6	8	10	9
Environment	12	3	13	19	13	18	5	4
Industry/energy	35	9	6	9	8	11	13	11
Infrastructure/urban development	63	16	4	6	8	11	24	21
Population, health, and nutrition	57	15	7	10	16	22	14	12
Rehabilitation/reconstruction	6	2	2	3	3	4	—	—
Total	391	100	68	100	73	100	114	100

* Refers to percentage of NGO-involved projects in all World Bank-approved projects; n.a. = not available.

Table 3-3. **Type and Function of NGOs in NGO-associated Projects, Fiscal Years 1991–94**

	1991		1992		1993		1994	
	No.	%	No.	%	No.	%	No.	%
Total projects involving NGOs	**89**		**68**		**73**		**114**	
By type of NGO (number of NGOs)								
Grassroots	49	55	37	54	21	29	46	40
Indigenous	66	74	52	76	58	79	80	70
International	23	26	33	49	16	22	11	10
Unclassified	—	—	—	—	1	1	19	17
By function (number of functions)								
Advice	40	45	37	54	35	48	14	12
Design	39	44	31	46	17	23	60	53
Implementation	85	96	59	87	57	78	99	87
Monitoring/evaluation	15	17	26	38	33	45	38	33
Cofinancing	23	26	10	15	1	1	11	10

NOTE: The numbers in this table are estimates of the ways NGOs may be involved in each project. Regardless of the actual number of NGOs involved in each project, projects are counted only once for each type/function of NGOs. For these reasons, numbers under "By type of NGO" and "By function" exceed the total number of projects involving NGOs.

held with NGOs in Paris and Washington on the draft of *World Development Report 1994: Infrastructure for Development*.

In addition to formal consultations, an increasing number of meetings between senior Bank officials and NGO representatives around the world have been held. A series of meetings took place with NGOs during the past year on issues such as the disclosure of information, creation of an inspection panel, and follow-up to the report of the Bank's Task Force on Portfolio Management. Another series of meetings focused on environmental sustainability, resettlement issues, specific project concerns, and the environmental effects of macroeconomic policies.

The changing nature of the Bank-NGO relationship was clearly exhibited at the Conference on Actions to Reduce Hunger Worldwide that was convened by the Bank in November 1993. In addition to participating in presentations and discussions, NGO representatives assisted in the conference's preparatory and follow-up work. Discussions at the country level on hunger issues are currently being planned by the Bank and NGOs in various countries.

NGOs are also playing a role in the Global Environment Facility (GEF), especially in the areas of project design, implementation, and monitoring. The twice-yearly meetings of GEF "participants" (members) are routinely preceded by GEF-NGO consultations.

The instrument for the Establishment of the Restructured Global Environment Facility, adopted in March 1994 at the GEF Participants Meeting in Geneva, included several provisions that relate to NGOs' concerns: In the restructured facility, NGOs will have important roles to play in proposing, preparing, and implementing projects, and local communities will be consulted throughout the project cycle.

The facility's three implementing agencies are moving to modify their procedures as needed to assure consultation with affected communities, increased participation by NGOs in GEF projects, public access to GEF project information, and regular monitoring and evaluation of project implementation and results.

Environmentally Sustainable Development

Achieving environmentally sustainable development is a major challenge of the 1990s. The June 1992 UNCED succeeded in raising the consciousness of the world to the urgency of this task. The World Bank, as the largest multilateral source of development finance for developing countries, has a special responsibility to ensure that the programs and projects it supports are consistent with the objective of sustainable development. The mandate of the Environmentally Sustainable Development (ESD) vice presidency is to develop an effective Bank response to this challenge.

At all times, people and the capacities of ecosystems to support life are the center of ESD's focus. The existence of acute poverty in the world and the degradation and contamination of ecosystems are related critical issues and essential concerns in environmentally sustainable development. The Bank must provide leadership in accelerating the improvement of living standards while incorporating the objectives of environmentally appropriate management and sustainability into the design of development policies and projects.

In carrying out its mandate, ESD engages in six types of activities:

- improving the Bank's understanding of the meaning of, and requirements for, achieving environmentally sustainable and equitable development;
- formulating sound environmental, agricultural, and infrastructural policies, projects, and programs—through its own studies and by drawing on the best work wherever it is being done—that promote sustainability;
- providing guidance and technical support to the Bank's six regional offices in devising operations consistent with the object of sustainability;[12]
- helping to address global issues related to the environment, agriculture, and infrastructure and urban development—in partnership with bilateral agencies, other multilateral institutions, and NGOs;
- exchanging and disseminating the findings of policy and "best practices" work with its external partners and within the Bank; and
- developing the Bank's technical capabilities through selective recruitment and training of staff to become more alert to environmental issues and more proficient in elaborating and managing environmentally sound programs.

Policy and Best-practice Work. The ESD vice presidency is responsible for advancing appropriate sustainable development policies in the Bank and monitoring progress in the field of environment, agriculture, and infrastructure. Recent policy papers have addressed urban development (fiscal 1991), forestry (fiscal 1992), housing (fiscal 1993), and water-resource management (fiscal 1993) issues.

During the past fiscal year, the vice presidency promoted the acceptance of the Bank's water-resource management policies, which call for treating water as an economic good, involving stakeholders in its management, and fostering institutional environments that encourage efficient, effective, and equitable water use. The importance of a comprehensive framework that takes into account cross-sectoral considerations was also stressed.

These concerns were pursued in countries worldwide. In the Africa region, for example, staff have been assisting the government of Malawi to develop a water-resources management policy to guide the sustainable use of water resources and the planning and provision of services, accompanied by substantial sector re-

[12] The 1987 report of the World Commission on Environment and Development (the Brundtland Commission) defined sustainable development as development that meets "the needs of the present generation without compromising the needs of future generations."

form. In China, work has focused on water issues and policy reforms as they relate to urban environmental management; and in the Brazilian states of Paraná, Minas Gerais, and São Paulo, the principles of water-resources management at the basin level, including consideration of the use of economic instruments for water allocations and pollution control, are being implemented.

In the second half of the fiscal year, ESD undertook a review of the degree of acceptance and implementation of the findings of the 1991 paper on forest policy.[13] The ongoing review—it had not been completed by the end of the fiscal year—is concentrating on the degree to which changes are being made at the country level to sector work and project design. Consultations on an early draft of the review were held in Libreville (capital of timber-rich Gabon), London, and Washington, D.C. Participants included NGOs from both developed and developing countries, members of the Forestry Advisers Group (which includes the forestry advisers of the principal donor agencies), representatives of the timber industry, and academicians.

Fiscal 1994 saw the publication of *World Development Report 1994: Infrastructure for Development*,[14] which examines the links between infrastructure and development and explores ways in which developing countries can improve both the provision and the quality of infrastructure services (transportation, telecommunications, water and sanitation, power and gas, and major water works).

World Development Report 1994 presents new strategies for developing infrastructure in more effective, less wasteful ways. The report shows that the quantity of investment cannot be the exclusive focus of policy. It is also vital that the quality of infrastructure service be improved. To promote more efficient and responsive delivery of infrastructure service, the report points to the need to change incentives through the application of three instruments —commercial management, competition (directly if feasible, indirectly if not), and stakeholder involvement.

The report also identifies trends that will facilitate improvements in the performance of infrastructure. These include innovation in technology and regulatory management, the new willingness of governments to involve the private sector, and increased concern about social and environmental sustainability.

World Development Report 1994 benefited from analysis initiated in ESD and published in the Bank's Discussion Papers series. Papers on "Railways, Energy, and the Environment" and "Rural Road Maintenance and Improvement" were also completed during the past year.

Four major parallel reviews—the second review of environmental assessments, the implementation review of the Bank's active portfolio of environmental projects, a review of national environmental action plans (NEAPs), and a review of projects involving involuntary resettlement—were the focus of environmental activities during fiscal 1994. The resettlement review, rather than being carried out as a desk-bound and static stock-taking exercise, was deliberately designed as a broad process of resettlement analysis in the field, carried out by the Bank's relevant regional and central units jointly with borrowers (see Box 3-2).

Central to integrating environmental concerns into the Bank's activities is the "Operational Directive on Environmental Assessment," which was issued in October 1989. The directive mandates an environmental assessment (EA) for all projects that may have a significant negative effect on the environment. Those expected to have significant, sensitive, irreversible, or diverse effects are classified as "Category A" and require a full EA. Less sensitive "Category B" projects undergo a more limited environmental analysis.

A first review of EA procedures, conducted in fiscal 1992, found that although they were realistic, workable, and instrumental in improving development planning and environmental management, problems remained. More effort was needed, the review concluded, to strengthen borrowers' capacity to conduct effective EAs. The review recommended, therefore, that EA training in borrowing countries be made a priority. The review also recommended that the Bank seek to move the EA process to earlier stages in borrower project planning before major decisions—for example, siting and technology—are made.

---

[13] The paper set forth a fourfold strategy to check deforestation. First, although general economic development is necessary for a longer-term solution to the problem of deforestation, priority should be given in the interim to increasing agricultural productivity in poor, densely populated areas—especially those adjacent to forested areas or those from where most forest encroachers originate—and to expanding nonfarm employment opportunities in these targeted areas. Second, forest protection will need to be ensured through specific legislation and regulatory measures, especially in tropical moist forests. Third, private incentives need to be changed, for enforcement of zoning and other regulations is likely to be ineffective unless they are. Fourth, public investments need to be preceded by much more careful environmental assessments.

[14] World Bank. 1994. *World Development Report 1994: Infrastructure for Development*. New York: Oxford University Press.

Box 3-2. Review of Projects Involving Involuntary Resettlement

In the wake of the Bank's experience with its involvement in the Sardar Sarovar projects in India, a task force was formed in 1993 to carry out an analysis of 146 projects approved between 1986 and 1993 with resettlement components to ensure that project implementation was being carried out consistent with loan and credit agreements and with Bank guidelines and policy.[1] Nearly 2 million people were in various stages of resettlement in the 146 projects, which represented 8 percent of the Bank's active portfolio of projects (and 15 percent by worth).

The main product of the review was not simply its final report,[2] but the process that the review triggered throughout 1993 across the Bank and on the ground. The review process consisted of intensified field supervision; analysis of project preparation, appraisal, supervision, and implementation; on-site consultations with nongovernmental organizations; sectoral resettlement studies; development of new technical tools for resettlement planning; and a considerable number of remedial actions initiated by the Bank and borrowers for those projects that were failing to meet set objectives.

Although task force members found that the Bank had made significant progress between 1986 and 1993 in some areas, they also discovered that when projects were not consistent with policy and processing guidelines, resettlers ended up worse off in some cases.

The single most important message of their review was that good resettlement can prevent impoverishment and even reduce poverty by rebuilding sustainable livelihoods. Socially responsible resettlement is also economically beneficial because the heavy costs of poorly handled resettlement extend well beyond the immediately affected population—to the regional economy and to the host population in relocation areas. Inadequate resettlement induces local resistance, increases political tensions, entails extensive project delays, and postpones project benefits for all concerned; the benefits lost because of such unavoidable project delays sometimes far exceed the marginal cost of a good resettlement package. Ensuring that involuntary resettlement is minimized—and when unavoidable, is carried out without impoverishing the people displaced—is fully justified, therefore, on both economic and ethical grounds.

The review showed, once again, that resettlement is nearly always more difficult, more expensive, and more time consuming than generally realized. The largest resettlement operations move tens of thousands of people—often very poor people—long distances in a very short time, and reestablishing their standard of living is a hard task. The inherent difficulty in reestablishing standards of living and community services is compounded by the limited technical and institutional resettlement capacity of most borrowers, as well as by weak commitment from some executing agencies.

During the review period, the Bank tripled its resources for resettlement supervision, and more supervision missions of projects with resettlement components were launched than in the previous three years put together. Remedial actions—they included increasing participation of affected people, finding ways to reduce displacement, provision of additional financial resources, and adjusting resettlement timetables—had the effect of considerably improving the Bank's overall portfolio. In-house analytical work and training offered to country officials also contributed during 1993 to improving portfolio management. In fact, the entire review process proved to be an exceptional opportunity for learning how to do resettlement better, for identifying good practices, adjusting general approaches to particular circumstances, building institutional capacity for

The second EA review found that Bank support to activities aimed at building and strengthening EA capacity in borrowing countries did significantly expand in the two intervening years. Support came mainly in the form of environmental institution-building projects aimed specifically at this and related objectives; technical assistance components, aimed at developing EA capacity, in regular investment projects; in-country training spearheaded by the Bank's Economic Development Institute and the Bank's regional environmental divisions; and advice on EA legislation and procedures. The Bank has also been successful in moving EA "upstream" in borrowers' planning processes, as evidenced by the growing number of "sectoral" EAs.

These efforts are beginning to bear fruit. Quality has improved considerably in important areas such as impact identification and analysis; public consultation, especially in the context of resettlement; and mitigation, monitoring, and management planning for projects. In addition, and even more important, the Bank has witnessed a diversification of EA approaches into newer areas, both in terms of sectoral spread (tourism and solid waste management, for example) and types of lending operations (privatization and onlending, for example).

Progress has been particularly significant as concerns the preventive dimension of EA—minimizing the negative environmental effects of a given project. But progress was also made

resettlement, and refining analytical and evaluation methodologies.

In the end, the Bank will be judged on how well the lessons learned from the review process will be integrated into its future activities. Important weaknesses in past Bank practice have been revealed, and actions to improve Bank resettlement work are under way. Thus:

- The Bank will not finance projects involving large-scale resettlement operations unless the government concerned adopts policies and legal frameworks that are conducive to resettlement with income restoration.
- The Bank will help borrowers build their institutional capacity to implement review before displacement starts with a view to protecting people's rights.
- Bank-assisted projects will avoid or reduce displacement as much as possible through technical and social studies for project design and execution.
- The active participation of would-be resettlers in the preparation, planning, and implementation of resettlement will be required.
- All projects will internalize the full cost of resettlement and of the investments required for income restoration within total project costs so as to prevent impoverishment.
- Twin-project approaches for large-scale civil works causing resettlement will be considered. This approach was used in fiscal 1994, when a $460 million loan in support of China's Xiaolangdi Multipurpose Project was coupled with a $110 million IDA credit to help resettle and restore and improve the livelihoods of 154,000 people (directly) and 300,000 people (indirectly) affected by the multipurpose project.
- The Bank's own institutional capacity will be strengthened, primarily through the better use of existing staff skills and by adding staff capacity in critical fields.
- Remedial and retrofitting actions will continue for all active projects that fall short of policy and legal provisions.
- Full compliance with procedures and established safeguards for ensuring project quality will be insisted upon. While full implementation responsibility rests with borrowing governments, the Bank has a responsibility to follow up carefully on performance, impacts, and outcomes.
- The content and frequency of resettlement supervision will be further improved, and regular and adequately staffed supervision missions will take place at least every twelve months, including on-the-ground visits to places where displacement and relocation occur.
- To sustain progress achieved and to monitor continued compliance with Bank guidelines and procedures, regional units will prepare annual reports on projects with resettlement in their portfolio as part of the annual review of portfolio performance.

By setting such exacting norms for the operations it assists and promoting resettlers' reestablishment at comparable or improved income levels, the Bank will continue to work to narrow the gap between resettlement goals and past entrenched practice in many countries.

[1] The Bank's resettlement policy has evolved steadily since 1980. Basic elements of that policy include avoidance or minimization of involuntary displacement whenever feasible; assistance to displaced persons in their efforts to improve, or at least restore, former living standards and earning capacity; compensation to displaced persons for their losses at replacement cost; promotion of resettlers' and hosts' participation in planning resettlement; and provision of adequate land, infrastructure, and other compensation for groups that may have informal customary rights to the land or resources taken for the project.

[2] World Bank. 1994. *Resettlement and Development: The Bankwide Review of Projects Involving Involuntary Resettlement, 1986–93*. Washington, D.C.

on the "proactive" front in terms of helping design individual projects and larger investment programs that actively enhance environmental quality.

The implementation review of environmental projects covered ninety-three projects—4.2 percent of all projects under implementation at the end of fiscal 1993 and entailing commitments of $6.4 billion—that had been identified as having primarily environmental objectives. These operations were approved between fiscal 1986 and fiscal 1993, with the majority coming after fiscal 1990. The operations, therefore, comprised a rather "young" segment of the total active portfolio.

On the basis of supervision ratings, environmental projects were found to be performing slightly better than the average for the portfolio as a whole at the end of fiscal 1993. Part of the explanation of the apparent above-average performance is the aforementioned "youth" of the projects in relation to the portfolio as a whole. Thus, controlling for project "age," it is probably more accurate to conclude that environmental projects are performing about the same as the Bank's active portfolio as a whole.

As in the case for the Bank's portfolio generally, there also appears to be a clear positive correlation between country income level and environmental project performance. Only one "problem project" was found in an upper-middle-income country, compared with the much larger number found in lower-middle and low-income countries.

It does appear, however, that certain types of environmental projects are performing better than others ("brown" projects are doing better than "green" and "institutional" ones). Furthermore, as a comparatively recent area of Bank lending, there are the inevitable number of start-up costs associated with new and often weak national and sectoral institutions. Other problems include the relative unfamiliarity of executing agencies with Bank requirements; a tendency in some cases to try to "pack too much" into single operations; and, in some cases, less than full borrower commitment to project objectives and components, especially those not involving physical investment.

Bank assistance in elaborating and implementing national environmental action plans (NEAPs) plays a critical role in helping member countries improve their environmental management. NEAPs provide a basis for the Bank's dialogue with borrowers on environmental issues, describe a country's major environmental concerns and problems, and formulate policies and actions to address whatever problems are identified. The responsibility for NEAP preparation and implementation rests with the borrower. By the end of fiscal 1994, most active IDA borrowers had completed NEAPs or equivalent documents, and several non-IDA countries had completed them or were in advanced stages of preparation.

A study of country environmental strategies is currently under way in the Bank; it has been designed to provide guidance to governments in preparing such strategies. The study—"National Environmental Strategies and Action Plans—Key Elements and Best Practice"—is expected to be completed by the middle of fiscal 1995. Its findings will be directed to governments of developing countries, particularly ministries that are primarily responsible for environmental planning and implementation.

The study is finding that the experience with preparing NEAPs has varied considerable from country to country. NEAPs need to be country driven and participatory, involving all segments of society and the government. At the same time, as strategies, national plans become more feasible to implement when there are clear priorities. Achieving both objectives has sometimes proved difficult, the study shows.

Making Development Sustainable: The World Bank Group and the Environment, a detailed review of World Bank environmental activities in fiscal 1994, was published in early fiscal 1995.

An important element of the support ESD provides the Bank's operational departments in delivering assistance of good quality to the Bank's borrowers is the promotion of "best practices." Best-practices papers, which build on completed policy papers, are drawn from ESD's operational support work and from rapidly accumulating experience as developing countries endeavor to put policies into practice. They are brief, practical, and driven by real-world successes and failures. During fiscal 1994, examples include the initiation of the Agricultural Technology News series—consisting of four-page notes written specifically for operational task managers on recent technological developments in specific branches of agriculture—and the continuation and expansion of the Infrastructure Notes series. Technical papers on topics as diverse as air pollution from motor vehicles, experience with lending for railways, urban infrastructure and productivity, and sectoral indicators for housing were also completed.

The sectoral indicators for housing have been developed collaboratively with the United Nations Centre for Human Settlements under the Housing Indicators Programs (HIP). The indicators reflect the interests of all key stakeholders in the sector (end users, suppliers, financiers, and governments) and cover factors as diverse as the price of housing, homelessness, quality, production, investment, interest rates for mortgages, the importance of housing finance within the overall financial system, subsidies, and taxes. They have been collected in fifty-three countries at every level of economic development and have been used within the Bank to evaluate priorities for policy reform and lending in a number of countries. Several borrower countries (Hungary and the Philippines, for example), with assistance from the HIP, have developed housing indicators as a tool for evaluating housing policies and programs at both the local and national level and for monitoring the performance of the sector on a continuing basis. Drawing on the successful experience of the HIP, sectoral performance indicators are now being extended to other urban subsectors, including local government finance and services, water supply and sanitation, urban environment, and urban transport.

Evidence exists that the failure to pay sufficient attention to social factors in development can jeopardize the effectiveness of Bank-supported programs and projects. The social dimensions of development are especially important in dealing with environmental and social issues. It is increasingly recognized that problems can be diagnosed and solutions implemented only through the development and application of the tools of social analysis. To bridge the social-dimension gap, preparation of

a Participation Sourcebook was begun during the past year.

The sourcebook, which builds on the findings of a three-year learning program funded by the Swedish International Development Authority, is being prepared in a participatory manner, drawing upon contributions of more than 200 Bank staff and external advisers. The sourcebook will be a loose-leaf action guide, providing Bank operational staff with key questions they should ask; best-practice answers to tackle these questions; brief case studies; and available resources. In addition to the sourcebook, ESD has also prepared a document providing guidance on social assessment (SA). The SA draws on best practice from a number of areas. Its objectives are to (a) identify key stakeholders and provide an appropriate framework for their participation in Bank-assisted operations; (b) ensure that project objectives and incentives for change are acceptable to those the project is intended to benefit; (c) assess the social impact of projects and minimize adverse impacts, if any; and (d) develop capacity at the appropriate level to enable participation and to carry out proposed activities. Both the guidelines and sourcebook will be elaborated upon and improved as practical experience is gained.

Training and Seminars. A key element of the work program of the ESD vice presidency is the training that it provides Bank staff on a range of topics to support operational work and help improve project implementation. During the past year forty-eight training courses were given. In addition, seminars, workshops, and study tours were organized, with participation by experts in their fields from outside the Bank. Thus, the Bank cosponsored—with the United Nations Development Programme (UNDP) and the Rockefeller Foundation—a workshop (held in Bangkok) on integrated pest management and biotechnology. Similarly, an irrigation seminar/study tour in Mexico, concentrating on the successful experience there with promotion of water-users' associations, brought together Bank staff with irrigation specialists from both developed and developing countries.

Direct Operational Support. A central objective of the Environmentally Sustainable Development vice presidency is to help the Bank's operational departments achieve the full integration of environmental considerations—with state-of-the-art technical, social, and economic approaches—in their project designs (appropriate to local ecosystems and country conditions) with the objective of long-term sustainability. Operational support activities are viewed as opportunities to explore systematically new approaches and build up knowledge step-by-step in a process of structured learning.

For example, the Russia Farm Transformation Study involved setting up an apparatus for farm surveys to monitor changes in farm organization; training of staff of the collaborating local institution in farm-survey techniques, data processing, and analytical methods; and producing an up-to-date picture of the situation in the farm sector. The capacity-building aspects of this task are already bearing fruit, as the collaborating institution is now conducting a follow-up survey with very little supervision. Furthermore, the work served as a model for a similar study under way that deals with Ukraine.

Protecting the Global Environment. The ESD vice presidency leads the Bank's efforts to address critical global issues affecting the environment, agriculture, and infrastructure and to follow up on the strategic agenda that emerged from UNCED. A part of this work emerges from the Global Environment Facility (GEF).

The GEF was established as a pilot program in 1991 to act as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the incremental costs of measures to achieve agreed global environmental benefits in four focal areas: climate change, biological diversity, international waters, and ozone-layer depletion. The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas, are also eligible for funding. Day-to-day operation of the facility is shared among the UNDP, UNEP, and the Bank. In addition to providing administrative support to the GEF secretariat, the Bank performs two principal functions: as trustee of a new trust fund and as one of the implementing agencies.

During its pilot phase, 115 projects, valued at more than $733 million, had been endorsed by GEF participants, of which sixty-eight (worth $471 million) had received final clearance. Forty-two percent of the facility's resources had been allocated to biodiversity projects, 40 percent to climate-change projects, 17 percent to international waters projects, and 1 percent to ozone projects.

In March 1994, more than eighty industrialized and developing countries agreed to restructure and replenish the GEF. Twenty-six countries, including several developing countries, pledged more than $2 billion to the GEF's core fund (the GEF Trust Fund) over the next three years. The eight principles that serve as the basis for the restructured facility may be

found on page 51 of the World Bank's *Annual Report* for fiscal year 1993.

After fifteen months of negotiations, the participants settled on a "double majority" voting system in a thirty-two-member council to protect the interests of both donor and recipient countries. This requires approval by a 60 percent majority of all member countries, as well as approval by donors representing at least 60 percent of contributions. The council will operate by consensus, using votes only in exceptional circumstances. The restructured and replenished GEF represents an innovative mechanism for international cooperation. As one of the GEF implementing agencies, the Bank has a special responsibility to assist countries in integrating their actions to protect the global environment with their national development strategies. One aspect of this is for the Bank to ensure that where it is responsible for GEF-financed activities linked to Bank-assisted projects, the GEF component is fully integrated with the project and is not seen simply as an add-on.

In December 1992, GEF participants requested an independent evaluation of the pilot phase of the facility to guide future planning. Reflecting the organizational structure of the GEF, the evaluation was conducted under the oversight of senior evaluation managers from each of the implementing agencies, with the Bank's Operations Evaluation Department providing the secretariat. An independent panel of experts provided strategic guidance and validated the methodology and approach used for the evaluation.

The resulting evaluation study, *The Global Environment Facility: Independent Evaluation of the Pilot Phase*, published jointly by the UNDP, UNEP, and the Bank in May 1994, advocated some fundamental changes. These include articulating more clearly the GEF's mandate, goals, and strategies; addressing deficiencies in meeting the GEF's global focus; improving the capacities and procedures of implementing agencies for managing the portfolio; and increasing NGO, country, and community-level participation.

The vice president for ESD also serves as chairman of the Consultative Group on International Agricultural Research (CGIAR), an informal association of forty-two public and private sector donors that supports a network of eighteen international agricultural research centers.[15] The Bank is a cosponsor of the CGIAR, together with the Food and Agriculture Organization of the UN (FAO) and the UNDP.

The centers pursue a research agenda agreed upon by the donors on the recommendations of an independent Technical Advisory Committee, after a careful review of the global challenges, the work of other institutions, and the centers' proposed programs. The CGIAR is widely considered as an outstanding success. The past contribution of its research centers to reducing hunger and poverty is demonstrable. Following a recent realignment of research programs, the centers are committed to grappling with today's challenges to sustainable agriculture, food security, and poverty reduction.

At the mid term meeting that took place in New Delhi in late May 1994, proposals for revitalizing the CGIAR system were endorsed. The proposals aim at stabilizing the system's financial system and halting the erosion of its scientific capacity; refocusing the research agenda on approved programs; improving governance and reforming management with a view to ensuring predictability, transparency, and accountability; linking the CGIAR's programs with participatory programs at the farm level; and developing an action plan and an eighteen-month timetable designed to secure government endorsement of the new strategy.

In the area of finances, members of the group stressed their commitment in support of the $270 million core research agenda. To this end, it was decided to redirect funding of activities in the complementary program to the core program, and a proposal by the three cosponsors to launch a one-time financial supplement brought indications of support of at least $10 million in additional pledges for 1994. The World Bank is considering matching additional donor core funding with an extra contribution on a 1:2 basis, up to a maximum of $10 million annually, for both 1994 and 1995.

To ensure transparency, accountability, and predictability of finances, the CGIAR will move toward a new program-budgeting system. The system will clearly identify the relative role of CGIAR centers in undertaking research programs within the context of a global research agenda implemented by industrialized countries, international agricultural research centers, the national agricultural research systems of developing countries, and nongovernmental organizations. The 1995 program and budgets will be presented in a form that facilitates the move towards the new approach.

[15] There will be sixteen centers in 1995 following the creation of a new single institutional entity for livestock research, which would comprise the existing International Livestock Centre for Africa and the International Laboratory for Research on Animal Diseases, and the merger of the International Network for the Improvement of Banana and Plantain with the International Board on Plant Genetic Resources.

The Russian Federation became the forty-second member of the group at the New Delhi meeting, and South Africa attended for the first time as an observer.

Outreach. Reliance on policy studies, best-practices papers, and other reports and studies for the dissemination of ESD's intellectual output is increasingly being supplemented by briefer specialized newsletters that are circulated widely ("Urban Age," "ENV Dissemination Notes," and "Forestry Newsletter," for example), as well as by informal workshops, seminars, and symposia aimed at enhancing collaboration with other agencies. Examples of the latter included involvement in the Dutch Ministerial Conference on "Drinking Water and Environmental Sanitation: Implementing Agenda 21" and continuing collaboration with the bilateral aid agencies of Denmark and Sweden on water resources-management issues.

The First Annual ESD Conference (September 30–October 1, 1993), convened at the Bank's headquarters, focused mainly on the question of properly identifying the costs and benefits of alternative uses of natural resources. The hundreds of experts attending the talks also looked at the growing need for better management in the face of worsening shortages and increasing pollution.

The conference yielded a rich discussion of some of today's cutting-edge environmental challenges. Its purpose was not, however, to look for a perfect solution to the world's environmental problems; instead, it set out to change the processes by which solutions are identified by involving people and focusing on the environment while promoting economic development.

ESD also organized a Conference on Actions to Reduce Hunger Worldwide (November 30–December 1, 1993). The inspiration for the conference came from a twenty-three-day fast earlier in the year by United States Congressman Tony Hall to raise public awareness about the growing scourge of hunger. The conference, which was planned in collaboration with other multilateral development agencies and NGOs from both the developing and industrialized world, aimed at strengthening global efforts to reduce hunger.

The Bank announced at the conference its willingness to work with other donors to fund credit organizations that offer very small loans to the very poor as part of an overall program to empower them to take control of their lives. The program is similar to several successful programs in the developing world such as the Grameen Bank of Bangladesh, the Badan Kredit Kecamatan of Indonesia, the micro-enterprise credit programs sponsored by the International Fund for Agricultural Development (IFAD), and the Freedom from Hunger Campaign. An immediate grant of $2 million was extended by the Bank to the Grameen Bank to help cover the start-up costs of the Grameen Trust for the first year of its operations. The grant is separate from the World Bank's normal loans and credits, which are made only to governments or involve a government guarantee.

The $2 million allocation to the Grameen Trust is indicative of the Bank's commitment to directly support action-oriented programs that target the reduction of poverty and the alleviation of hunger. Other agencies have already contributed to the trust, and the Bank's modest contribution reinforces the institution's intent to join donors and other partners to explore programs that address the credit and savings needs of the self-employed poor and to support institutions whose aim is to help those who are in the greatest need. The Grameen Trust was founded by the president of the Grameen Bank, Mohammed Yunus, one of the speakers at the conference.

Other speakers included Boutros Boutros-Ghali, secretary general of the United Nations; Ketumile Masire, president of Botswana; former United States president Jimmy Carter (in his capacity as a leader of the Carter Center, a nongovernmental organization); World Bank president Lewis Preston; and Congressman Hall.

Lending operations. In fiscal 1994, lending in support of environmentally sustainable development totaled $10,203 million, or 49 percent of total Bank lending. Some $6,835 million of the investments were supported by IBRD loans, while $3,368 million were supported by IDA credits.

Eight projects with primarily environmental objectives, involving commitments of $748 million, were approved. Seventeen projects contained significant environmental components that advanced the green agenda (ten projects, $742 million) and the brown agenda (seven projects, $913.6 million).[16]

Lending in support of agriculture and natural-resource development totaled $3,907 million for forty-six projects; transportation lending amounted to $3,293 million (twenty-five projects); fifteen investments in the urban

[16] In fiscal 1994, "environment" was formally included as a sector. To be so classified, a project must primarily address one of four concerns: environmental institutional development, natural resources management, pollution control/waste management, and resettlement.

development sector amounted to $1,279 million; and commitments totaling $975 million (ten projects) were made in the water supply and sewerage sector.

Financial and Private Sector Development

During fiscal 1994, the World Bank Group—the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—stepped up its support to developing countries to expand their private sectors and build up their financial sectors. The objective is to enhance their prospects for growth and to make their economies responsive enough to compete in today's fast-moving global economy. The Bank Group's support for private sector development and privatization also helped governments reduce their responsibilities and fiscal burdens—freeing them to focus on poverty and the environment.

As last year's *Annual Report* noted, the Bank Group is looking for ways to understand the dynamics of the environment affecting private sector development. It is also forging links among local institutions critical to creating a vibrant environment for business. And it is learning from—and disseminating—successful country experiences in implementing reforms.

Contributing to much of this work is the Bank's new central vice presidency for finance and private sector development (FPD), which, during fiscal 1994, completed its staffing and organizational set-up. Bank Group operations and activities in support of private sector development focused on three main areas:

- effectively supporting private sector development through an increasing range of actions;
- better dissemination of knowledge; and
- experimenting with innovative ideas.

Supporting Private Sector Development. The Bank is fostering the private sector throughout the developing world in a variety of ways. World Bank adjustment loans and credits, for example, help produce a competitive and attractive business environment, as well as help reform in the financial sector. In addition, the Bank Group is supporting about $25 billion worth of private investment annually. The Bank's financial intermediation loans of about $1.5 billion a year support $4 billion in private sector investment; the IFC—through its loans, equity, and credit lines—provides about $2.5 billion a year, and with a much bigger multiplier of about 7 to 1, supports approximately $18 billion worth of investment; and MIGA's guarantee operations are currently running at about $400 million a year, supporting about $3 billion in private sector investments. That $25 billion represents about 10 percent of private investment by enterprises in developing countries.

Support for operations. In its efforts to help develop more vibrant and competitive private sectors, a central concern of FPD has been to improve the quality and effectiveness of Bank operations—the focus of more than two thirds of FPD's resources. Activities during the past year have included support to country teams for better design and execution of projects, more and better staff training, better programs of technical assistance, increased networking with "best-practice" innovators throughout the world, and enhanced dissemination of knowledge and best practices to Bank staff and borrowers.

As was highlighted at a seminar on finance and private sector development for the Bank's executive board in March 1994, with governments everywhere reexamining their role in development and reorienting public sector activities to maximize efficiency, the private sector is increasingly being asked to help meet their development priorities. At the same time, today's worldwide trade and business patterns imply a higher competitiveness threshold and much higher standards of responsiveness for government institutions and firms alike.

Accepting this reality requires a fundamental change in what governments do and in the way they relate to the private sector. It means that governments have to move away from controlled, inward-looking economies to competitive, outward-looking ones. And it means that firms have to move from courting the state for special privileges to courting the markets for profits.

Governments thus have to establish a competitive environment, a legal and regulatory system that can support the market, and institutions that can help firms upgrade their capabilities. They have to move from being owners and operators to being competent regulators and partners.

During fiscal 1994 the Bank Group continued to help its borrowing countries intensify their efforts in privatizing publicly owned enterprises, redesigning regulatory frameworks, and, more generally, developing an attractive business environment. By the end of the fiscal year the Bank and the IFC jointly had virtually completed seventeen private sector assessments. Their findings have been disseminated through seminars and workshops with a view to assisting governments develop solutions in consultation with the private sector. The reports themselves, however, have typically presented the Bank Group's own diagnosis and recommendations to the governments concerned as a means of assisting them in their

policy formulation on private sector development-related issues. The recommendations of these assessments have helped the Bank's country-assistance strategy and lending program (see Box 3-3). Over the past few years, almost three of every four Bank-supported adjustment operations have included components that helped establish competitive markets and an environment to support the development of a successful private sector. There has also been an increasing effort to generate the institutions fundamental to the development of competitive and responsive markets—customs and tax, technology, technical education, and standards and patents institutions, for example.

Privatization remained a central focus of the Bank Group's and FPD's assistance to a geographical cross-section of member countries during fiscal year 1994. Many initiatives were aimed at establishing the institutional framework for privatization in such a way as to facilitate efficient, timely, and transparent divestitures. Major programs were undertaken in a range of economies, from larger (Turkey) to smaller (Bolivia and Fiji). The targets for divestiture included the sale of small businesses and shops, medium-sized and large enterprises in the tradable sector, and public utilities. The IFC has taken an active role in technical assistance for privatization in Russia, helping to develop suitable methods built around an easily

Box 3-3. Private Sector Assessments

To sharpen the focus of its work on private sector development, the Bank introduced in fiscal 1992 a new element in its program of economic and sector work—the private sector assessment. As of June 30, 1994, seventeen assessments had been completed (of which ten were completed during the past year). Six additional assessments are currently under preparation, and fourteen more are expected to be started and completed during the next two years.

These assessments differ from other Bank economic and sector work in that they involve the formal cooperation of the IFC. This cooperation has had several beneficial effects: It helps focus assessments tightly on those elements of the business environment that directly affect private business activity, and it permits the Bank to take advantage of the IFC's considerable transactions experience in the private sector. Cooperation also helps ensure that the Bank and the IFC pursue consistent private sector development strategies and that the country dialogue, economic and sector work, and lending operations reflect joint Bank/IFC concerns.

In general, a well-formulated private sector assessment describes the structure of the private sector in a given country, identifies the key constraints to its development, and lays out economically efficient ways for the country to remove those constraints.

The exact content of a private sector assessment depends largely on other economic and sector work that has been prepared for a country. Typically, this work would:

- set out the major macroeconomic issues facing the private sector and discuss how trade barriers and price distortions might lead the private sector to make investments that are not conducive to growth;
- discuss the merits of different public investments and expenditures, suggesting economically efficient changes in spending and raising possibilities for the private provision of infrastructure and services that are currently being provided by the government; and
- report on the entities in the financial sector and explore how well the sector offers access to credit to the business community.

When these areas are not covered in economic and sector work, they are covered by a private sector assessment. Typically, however, a private sector assessment focuses more on the business environment. How is business regulated? What are the costs of excessive regulation? Are monopolies and anti-competitive practices properly regulated? Does the state supply its public services efficiently? Does the legal system permit the writing of loan contracts that cover important economic transactions? Does it permit these contracts to be enforced?

Private sector assessments have turned up several broad areas of interest.

- Many high-payoff returns have come from small and uncontroversial changes in practice that, nonetheless, have caused private sector activity to take off.
- Private sector assessments have helped focus the Bank's other economic and sector work more sharply on private sector development concerns.
- Recently completed surveys of private enterprises that assess the institutional and policy framework that governs private sector activity indicate that among the regulatory constraints that businesses face, tax and labor regulations are the most burdensome. Surveys have found regulatory compliance costs to be high—in one instance, taking up as much as 26 percent of senior management time.
- Failure of public infrastructure is a large problem. Infrastructure problems tend to be sector specific, although larger firms in any sector are better able to bear the costs of infrastructure failure than smaller firms.

replicated open voucher process. The IFC's assistance began with model approaches for privatizing small-scale enterprises and then truck transport, followed by voucher privatization of medium and large-scale enterprises. The Bank Group has also continued to play a central role in the design and implementation of mass privatization schemes aimed at introducing sweeping ownership changes in such transition economies as Kazakhstan, the Kyrgyz Republic, Moldova, Russia, and Ukraine. Work is also under way—in many of these transition economies and in Latin America—to devise and implement programs to support the growth and sustainability of recently privatized enterprises.

The Bank's traditional agenda in dealing with state infrastructure monopolies was to expand the network, introduce new technology, and strengthen operating entities. The emphasis was on least-cost design, efficient procurement, and the financial and managerial autonomy of operating entities. For this, the main instruments were Bank investment loans and the use of the ECO—expanded cofinancing operations—program.

In today's world, the move toward increasing private participation in infrastructure is driven by dissatisfaction with the performance of state-owned and state-operated infrastructure enterprises. At the same time, government finances are precarious, while investment needs are on the order of $200 billion a year. And technical change is making it possible for smaller scales to be economical—and private.

Seeking greater efficiency and better value for money, regulatory reforms can facilitate competition by unbundling potentially competitive activities (electric power generation and distribution) from less competitive activities (power transmission).

Where full-fledged competition is absent, complementary regulation aimed at protecting the public interest can improve efficiency. New approaches to regulation are evolving, too—aimed at improving incentives for cost control and technical innovation. The choice of the right regulatory approach is complex, and while some are better than others, there is no best scheme for all circumstances. Much depends on each industry's structure and each country's institutional and civil service capacity.

Private sector financing of infrastructure is growing fast, although it is still fairly small. Both the number of countries and subsectors involved have expanded significantly. Apart from power and telecommunications, private participation in infrastructure is entering areas such as airports, railways, ports, toll roads, and water supply and treatment. The IFC's investments in this sector have risen sharply in recent years. The corporation's infrastructure operations for fiscal 1994 were in excess of $550 million in terms of net financing ($1.29 billion gross), for about $5 billion worth of projects. These figures represent an increase of 80 percent to 90 percent over fiscal 1993 figures.

Telecommunications is a good example. As was highlighted at a joint Bank-IFC seminar on telecommunications for the executive board in February 1994, developing countries must invest about $30 billion a year just to provide the basic infrastructure to sustain economic growth and meet current demand. Even with the support of the Bank Group and other official lenders, there is at least a $20 billion gap in financing—a gap that only the private sector can fill.

To mobilize such amounts of private capital, more and more developing countries are undertaking broad reforms in telecommunications. The time for this is propitious. Rapid technological change, declining costs, and good potential for fast growth—unparalleled in other sectors—open the way to a range of ownership and management structures.

The Bank Group is supporting these reforms by acting as agent of change and using a widening range of Bank, IFC, and MIGA instruments to attract private capital and management. Under joint approaches of the three institutions, flexible packages of technical assistance, lending, investment, and guarantees are being tailored to individual country situations.

The Bank's work on energy during fiscal 1994 focused on energy efficiency, energy sector restructuring and regulation, private sector involvement, gas trade, rural energy, household fuels, and renewable energy sources—with particular emphasis on the analysis and mitigation of environmental impacts. FPD continued its analysis of success factors in energy-efficiency programs—with a view to designing better country-specific and market-based approaches for improving energy efficiency on both the supply and demand sides. Various initiatives assisted sectoral reforms in key countries. The Bank encouraged cross-fertilization through technical assistance, seminars, and workshops for policymakers, notably in Brazil, China, India, and several countries of Central and Eastern Europe and the former Soviet Union.

The Bank strengthened its work on natural gas, which is abundant and environmentally clean. The challenges have to do with the distance of many gas fields from the market and

Box 3-4. Managing Energy

The joint UNDP/Bank Energy Sector Management Assistance Programme (ESMAP) was established in the early 1980s to assess the effects in developing countries of dramatic changes in energy prices. With the help of more than a dozen donors, it now focuses mainly on sector restructuring, regulation, energy efficiency, and household fuels, as well as on institution building and policy advice in selected countries. ESMAP's activities, integrated into the Bank's Industry and Energy Department, are often vital complements or preconditions to Bank operations and bilateral aid programs.

In fiscal 1994, ESMAP focused on assisting developing countries as they embark on "second generation" energy strategies, often linked to broad economic reforms. During this phase, traditional technical assistance activities take place in conjunction with the implementation of major economic reforms—including restructuring and regulatory adjustments, price and tariff revisions—and new investment programs that increasingly embody environmental concerns.

During the past year, ESMAP assisted countries such as Bolivia, India, Morocco, and Poland in planning and carrying out a restructuring of key segments of their energy sector. ESMAP household and rural energy activities, one of the program's long-term strengths, continued vigorously in Bolivia, Chad, India, Jamaica, Mali, Rwanda, and Viet Nam. Similarly, energy efficiency and conservation efforts, including institution and local capacity-building work and training in demand-side management, have been a major feature of ESMAP work in Brazil, China, Pakistan, Tanzania, Zimbabwe, and elsewhere. Oil and gas activities remained important in countries such as Mozambique and Morocco, as well as in several Central and Eastern European countries that have substantially underused capacities and an urgent need for reliable and clean energy sources. In this respect, trade issues associated with the development and use of natural gas resources are an area of particular emphasis for ESMAP's present and future activities.

the difficulty of transporting the gas. During the year, Bank work focused on improving the regulatory framework and on supporting new projects for transporting gas to the markets—in such countries as Argentina, Bolivia, and Pakistan.

FPD continued to administer the joint UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP), now supported by fifteen bilateral donors. The program provides technical assistance to help developing countries implement key policy reforms for making the energy sector more efficient and ensuring that investments in the sector make the most use of scarce domestic and external resources (see Box 3-4).

In the realm of financial systems and capital markets, experience shows that when a banking system is in crisis, strong measures are required at several levels. At the broader level of the banks' business environment, three types of action are necessary. First, the macroeconomic environment has to be improved, and enterprises restructured so they become healthy, productive borrowers. Second, the interest-rate regime and the schemes that provide targeted, subsidized credit need reform. Third, the financial infrastructure, including the legal, accounting, and regulatory framework, needs to be upgraded.

Because the financial health of banks determines the quality of resource allocation in an economy, a principal focus of the World Bank has been to help strengthen banking institutions and their environments. Through financial sector adjustment loans and similar operations, the Bank is working with borrowing countries to build better systems of prudential bank regulation and transparent accounting. Supervision has been strengthened to ensure that reasonable standards of bank capital are maintained—along with the management capacity necessary to see that it is effectively deployed. Assistance has also been delivered directly to banks, through capacity-building operations and financial restructuring to strengthen their ability to respond to effective enterprise demand for investment capital.

Bank restructuring has become a frequent component of Bank operations. It aims at isolating and tackling the nonperforming assets of the banking sector. Bank management and procedures also need reform to prevent the reemergence of subsequent asset problems. Once the banks are overhauled, it is vital to strengthen durably the institutions and processes of bank supervision and regulation so that a recurrence of asset problems is forestalled. Because the process of bank restructuring is long and arduous, it is vital that Bank supervision of associated loans be intensive for several years. Without intensive supervision, it is unlikely the process of reform will maintain sufficient momentum and avoid a relapse.

If banking intermediaries are in good health, the Bank and the IFC can usefully lend through them. Financial intermediary lending, an important instrument for the Bank in achieving its

developmental objectives, can be very effective in reaching several classes of borrowers (small industry, farmers, the housing market, municipalities, and infrastructure developers). This lending is a means for the Bank Group to deliver to borrowers the benefit of its excellent credit standing in global financial markets. And as the reform and restructuring efforts of financial sector adjustment loans bear fruit—and financial intermediaries begin to function efficiently in a sound business environment—financial intermediation lending may well again emerge as an important part of the Bank's lending activities, complementing the IFC's successful credit line activities. Market pricing of such financial intermediation loans is essential in all cases.

The Bank and the IFC are also engaged in a variety of capital-market development activities. Complementing the IFC's long-standing work with capital markets in developing countries, the Bank is concentrating on the broader issues—such as regulation, institutional investment capacity, and contractual saving schemes. This work typically includes the promotion of credit transparency through such channels as independent rating agencies and the development of simple, standardized securities, such as bank debentures. The Bank and the IFC have collaborated closely in capital-market development in Mexico, where a joint Bank-IFC-Inter-American Development Bank team worked on the design of promising structures for a private infrastructure-financing facility.

The Bank's role in developing capital markets has depended on the needs and capabilities of its borrowers. In the weaker economies and in the transition economies, the Bank has focused primarily on the provision of basic financial services and the creation of sound banking intermediaries. For many borrowers, the Bank has focused on developmental lending through financial intermediaries—if their health was assured. For sophisticated borrowers, including many larger borrowers such as Argentina and Mexico, the Bank has been active in providing assistance to promote capital markets. The Bank's resources have also helped strengthen the capacity of governments to promote acceptance and liquidity for securities backed by creditworthy issuers, which might otherwise be unmarketable as a result of concerns about broad economic policy and performance.

Better dissemination of knowledge. One of FPD's main responsibilities is to enhance the Bank's role in the realms of knowledge, policy advice, and dissemination of best practices in the area of financial and private sector development. The Bank's work in these areas undergirds its financial role. With its repository of research, knowledge, and information about development—and with its unique global reach—the Bank is increasingly becoming a knowledge-based institution. The global economy is increasingly driven by knowledge—by ideas, relationships, and innovations. And value added and comparative advantage now come as much from these factors as from raw materials, labor, or capital.

As countries move up the development ladder, their ability to compete and integrate into world markets moves beyond knowing *what* to do to knowing *how* to do it. The Bank is thus doing more as a collector and disseminator of best practices and innovations for meeting the broad array of requirements to compete in world markets.

FPD has actively disseminated knowledge about best practices through conferences, seminars, and training programs, often held in collaboration with the IFC. In fiscal 1994, FPD held sixty seminars and training sessions, providing more than 1,800 person-days of training to Bank staff (largely on private sector development) and 2,000 person-days to external participants (largely on financial sector development, industry, and energy). The Bank's six regional vice presidencies, the IFC, and MIGA also organized similar events, covering a broad array of topics.

In May 1994 an innovative Bank seminar on international experience in restructuring the coal industry drew government officials from a broad range of ministries in Russia, as well as industry experts. In addition, a June 1994 conference, "Development, Environment, and Mining: Enhancing the Contribution of the Mineral Industry to Sustainable Development"—cosponsored by various international organizations and attended by 300 government, industry, and NGO representatives two thirds of them from developing countries—covered issues related to mining activities and the preservation of the environment.

The Bank and the IFC have forged informal and formal ties with a range of trade groups, commercial enterprises, business-promotion agencies, multilateral organizations, and NGOs to bring new ideas to the Bank, build public support, and initiate joint programs.

The Bank has also begun holding industry-by-industry roundtables to create an environment for dialogue and problem solving. A series of workshops and roundtables on the private provision of power supply was conducted with producers, regulators, donors, government representatives, and developing country operators. These fora helped foster a broad di-

alogue, allowed the Bank to listen to experts from outside, and facilitated a consensus on the agenda for moving ahead. In the oil and gas sector, the Bank has sponsored workshops and conferences for investors and host countries to develop better understanding of gas trade and markets, and of opportunities for investment. It has also used these fora as a means of disseminating experience and best practices. In the same spirit, the Bank and the IFC worked with the government of Morocco and the private sector on developing options for attaining quickly a higher threshold of competitiveness. As a follow up to this work, the Moroccan government hosted a major seminar in early June 1994 with the private sector on ways to improve the business environment and compete in global markets.

Experimenting with Innovative Ideas. During the past year, the Bank intensified its *work on renewable energy alternatives*, working with countries, representatives from the energy industry, and NGOs. The objectives are to identify and prepare solar energy projects suitable for financing by the Global Environment Facility and other funding sources—and to encourage collaboration among countries in research and development and in demonstration projects.

The Bank has also been active in developing *new types of lending assistance* to support the increased role of the private sector in the provision of public services.

To support domestic bond markets, the Bank has designed catalytic operations that create a bridge between institutional investors (pension funds, insurance carriers, mutual funds) and the need for long-term funds for enterprises and infrastructure. This will enhance the sustainability of the financial system in borrowing countries and reduce the heavy reliance on foreign exchange.

A capital-market development project in Argentina broke new ground by finding effective ways of fostering the growth of local market institutions. The $500 million Capital Market Development Project, approved in March 1994, will help prime-rated commercial banks overcome longer-term funding constraints through a backstop facility that would ensure them a source of continued funding at predetermined financial costs.

In principle, the project could have been structured as a Bank guarantee or as a loan fully disbursed into an escrow account, rather than as a loan with disbursement contingent on market conditions. The form of the Bank's credit extension was not crucial. The product innovation lay in the creation of the facility and its associated fund—and its potential for helping local market institutions to grow. The project also says much about the Bank's willingness to change. It would disburse against financial assets rather than goods and services; it is supporting market development as its principal objective; and it is focusing not on Bank disbursements but on facilitating market flows and creating confidence.

There was also a Bank effort to expand financial intermediation lending by developing a new format, using the better intermediaries in countries, with as light a structure as possible. The $120 million Private Investment Credit Project for Tunisia, approved in December 1993, epitomizes the new approach. Under the old approach, the Bank would have insisted on an elaborate structure for apex operations and on close monitoring of all lending decisions. Now, most lending decisions are up to the intermediaries, whose own capital is at risk.

Small and medium-sized enterprises have an important role in creating jobs. But their special technical, marketing, and financial needs have proved difficult to meet in a cost-effective way. To move forward on this, the Bank has been working with four NGOs with strong track records in delivering credit schemes. The repayment rates of many of these schemes have been high (90 percent to 99 percent), but their transaction costs have also been high—primarily to cover their start-up costs and the technical assistance needs of their borrowers. The Bank has been helping these NGOs devise sustainable and replicable programs, obtain donor finance, and disseminate the results of their efforts. The Bank has also engaged governments in policy and institutional issues that affect small and medium-sized enterprises. In this capacity, it acts as a broker and partner to help NGOs extend the reach and effectiveness of their programs.

Section Four
World Bank Operations: Fiscal Year 1994

World Bank (IBRD and IDA combined) commitments to countries during fiscal year 1994 totaled $20,836 million, down $2,860 million from the previous year.

The decrease was accounted for principally by a sharp decrease in commitments from the IBRD—from $16,945 million in fiscal 1993 to $14,244 million. IDA commitments, at $6,592 million, were only marginally below fiscal year 1993's $6,751 million amount. One project, for $30 million, in the Occupied Territories was approved. It was funded by the $50 million Trust Fund for Gaza, which had been approved by the executive directors in the first half of fiscal 1994.

Shortfalls in the IBRD's lending program, as compared with the budget, which set indicative IBRD lending at between $17 billion and $19.5 billion, were particularly sharp in Latin America and the Caribbean, in the Middle East and North Africa (where the lending program in Algeria has suffered), and in South Asia, particularly in India. Increases occurred in East Asia and Pacific (up $219 million) and Africa (up $81 million).

The number of IBRD and IDA operations approved in fiscal 1994—228—was slightly lower than the previous year's 245. One hundred twenty-four IBRD operations were approved, as opposed to 122 in fiscal 1993. The lending-instrument "mix" in fiscal 1994 showed an increase in investment operations, which could not compensate, in volume terms, for the larger size of a typical adjustment loan.

The largest borrower of IBRD funds was China ($2,145 million for eight projects), followed by Mexico ($1,530 million for five projects), and Russia ($1,520 million for six projects). The three largest borrowers of IDA credits were China ($925 million for six projects), India ($835 million for six projects), and Bangladesh ($597 million for three projects).

The sector with the largest number of approved projects was agriculture (forty-six projects), followed by transportation (twenty-five projects) and "multisector," which includes support for reform programs and emergency imports (twenty-two projects).

Adjustment lending, at $2,425 million, accounted for 12 percent of the World Bank's fiscal 1994 portfolio ($510 million, or 4 percent, for the IBRD; $1,915 million, or 29 percent, for IDA). In fiscal 1993, adjustment lending amounted to slightly more than $4,000 million ($2,645 million for the IBRD and $1,363 million for IDA), or 17 percent of that year's portfolio. To a certain extent, the decline in adjustment lending has been purposeful, especially in Latin America, where the transition from adjustment to lending operations is well under way, and in the Middle East and North Africa region, where no further adjustment operations are currently being planned for Egypt, Morocco, and Tunisia.

In addition, the explosive increase, to $177 billion net, during 1993 of capital flows to developing countries eliminated, in some cases (India, for example), the balance-of-payments justification for adjustment lending.

The principal reason for the turnaround in private flows has been the economic policy reforms of developing countries, especially privatization, fiscal consolidation, greater openness to trade, reduction of commercial bank debt overhangs, domestic price liberalization, and market-oriented reform. To an unquantifiable extent, the World Bank has helped to foster the environment that has allowed these flows to increase through its support of policy reform.

It cannot be assumed, of course, that $177 billion in flows will continue to find its way to developing countries annually. Some of the money is volatile, and market perceptions, as well as relative returns, will change. One of the risk in the years ahead for the developing countries is the possibility of a substantial decline in these flows and the associated consequences.

Disbursements

The lower level of World Bank lending had its consequence for disbursements, as well, since a substantial part of the reduction in lending was caused by a decline in fast-disbursing adjustment assistance. Gross disbursements to countries by the Bank totaled $15,979 million in

Table 4-1. **IBRD and IDA Foreign and Local Disbursements, by Source of Supply**
(amounts in millions of US dollars)

	IBRD and IDA						
	Foreign[a]		Local		Net advance disbursements[b]		
Period	Amount	%	Amount	%	Amount	%	Total amount
Cumulative to June 30, 1989	85,673	58	58,218	39	3,761	3	147,652
Fiscal 1990	8,883	57	6,099	39	648	4	15,629
Fiscal 1991	8,877	57	6,606	42	184	1	15,667
Fiscal 1992	9,038	55	6,807	42	537	3	16,381
Fiscal 1993	9,813	56	7,887	45	−325	−2	17,375
Fiscal 1994	9,009	56	7,442	47	−473	−3	15,979
Cumulative to June 30, 1994	131,294	58	93,059	41	4,331	2	228,684

NOTE: Details may not add to totals because of rounding.

a. Amounts exclude debt reduction disbursements of $2,160 million in FY90, $313 million in FY91, $50 million in FY92, and $515 million in FY93 for IBRD.

b. Net advance disbursements are advances made to special accounts net of amounts recovered (amounts for which the Bank has applied evidence of expenditures to recovery of the outstanding advance).

Table 4-2. **IBRD and IDA Foreign Disbursements, by Source of Supply**
(amounts in millions of US dollars)

	IBRD					IDA				
	OECD		Non-OECD		Total	OECD		Non-OECD		Total
Period	Amount	%	Amount	%	Amount	Amount	%	Amount	%	Amount
Cumulative to June 30, 1989	55,468	86	8,846	14	64,314	17,427	82	3,932	18	21,359
Fiscal 1990	5,290	79	1,388	21	6,678	1,491	68	714	32	2,205
Fiscal 1991	4,953	80	1,230	20	6,183	1,802	67	891	33	2,694
Fiscal 1992	5,067	76	1,634	24	6,701	1,515	65	822	35	2,337
Fiscal 1993	5,048	72	1,928	28	6,976	1,784	63	1,052	37	2,837
Fiscal 1994	3,966	73	1,491	27	5,457	2,175	61	1,378	39	3,553
Cumulative to June 30, 1994	79,793	83	16,517	17	96,310	26,194	75	8,791	25	34,984

NOTE: Disbursements for debt reduction and net advance disbursements are excluded. Details may not add to totals because of rounding. OECD amounts are based on current OECD membership, excluding Mexico, which became a member in May 1994.

fiscal 1994: $10,447 million by the IBRD and $5,532 million by IDA. In fiscal 1993, gross disbursements by the IBRD and IDA were $12,942 million and $4,947 million, respectively. (The IBRD amount in fiscal 1993 included extraordinary disbursements of $1 billion to Peru when it cleared its arrears.)

Disbursements, by source of supply. Projects financed by the World Bank require procurement from foreign and local sources to achieve project goals. Disbursements are made primarily to cover specific costs for foreign procurement and some local expenditures.

The procurement rules and procedures to be followed in the execution of each project depends on individual circumstances. Three considerations generally guide the Bank's requirements: the need for economy and efficiency in the execution of the project; the Bank's interest, as a cooperative institution, in giving all eligible bidders from developing countries and developed countries an opportunity to compete in providing goods and works financed by the Bank; and the Bank's interest, as a development institution, in encouraging the development of local contractors and manufacturers in borrowing countries. In most cases, international competitive bidding is the most effective method of procurement. The Bank prescribes conditions under which preferences may be given to domestic or regional manufacturers and, where appropriate, to domestic contractors. Through the end of fiscal 1994, 58 percent of IBRD and IDA disbursements covered goods and services provided directly by foreign suppliers located outside the

Table 4-3. IBRD and IDA Payments to Suppliers in Active Borrowing Countries for Foreign and Local Procurement in Fiscal 1994

(millions of US dollars)

Borrowing countries	Local procurement	Foreign procurement	Total amount	Percentage of total disbursements[a]
Albania	4	†	4	•
Algeria	46	3	49	0.31
Angola	2	†	2	•
Argentina	173	26	199	1.25
Bahamas, The	†	†	†	•
Bangladesh	128	6	134	0.84
Barbados	1	2	3	•
Belarus	—	†	†	•
Belize	3	—	3	•
Benin	7	2	9	0.05
Bhutan	1	†	1	•
Bolivia	31	1	32	0.20
Botswana	4	2	6	•
Brazil	378	151	529	3.31
Bulgaria	†	16	16	0.10
Burkina Faso	28	1	29	0.18
Burundi	14	†	14	0.09
Cameroon	19	3	22	0.14
Cape Verde	2	†	3	•
Central African Republic	6	†	6	•
Chad	10	•	10	0.06
Chile	78	12	90	0.56
China	1,104	273	1,378	8.62
Colombia	175	6	181	1.14
Comoros	2	•	2	•
Costa Rica	6	6	12	0.08
Côte d'Ivoire	20	41	61	0.38
Croatia	—	11	11	0.07
Cyprus	22	21	43	0.27
Czech Republic	—	27	27	0.17
Djibouti	1	1	2	•
Dominica	—	†	†	•
Dominican Republic	14	2	16	0.10
Ecuador	64	1	65	0.41
Egypt, Arab Republic of	54	6	60	0.37
El Salvador	22	1	23	0.15
Equatorial Guinea	1	5	6	•
Estonia	2	1	3	•
Ethiopia	16	8	24	0.15
Fiji	2	—	2	•
Gabon	4	1	5	•
Gambia, The	4	†	4	•
Ghana	42	3	45	0.28
Guatemala	2	2	3	•
Guinea	17	†	17	0.11
Guinea-Bissau	5	3	8	•
Guyana	3	1	4	•
Honduras	5	1	6	•
Hungary	74	61	135	0.84
India	1,206	133	1,339	8.38
Indonesia	840	36	877	5.49
Iran, Islamic Republic of	22	7	29	0.18
Jamaica	13	†	13	0.08
Jordan	32	3	35	0.22
Kazakhstan	†	†	†	•
Kenya	39	50	90	0.56
Korea, Republic of	165	343	508	3.18
Kyrgyz Republic	6	†	6	•
Lao People's Dem. Rep.	3	12	14	0.09
Latvia	—	2	2	•
Lebanon	3	6	9	0.06
Lesotho	3	†	3	•
Lithuania	6	2	8	0.05

Borrowing countries	Local procurements	Foreign procurements	Total amount	Percentage of total disbursements
Macedonia, FYR	3	†	3	*
Madagascar	25	1	26	0.16
Malawi	25	1	27	0.17
Malaysia	115	27	142	0.89
Maldives	1	—	1	*
Mali	21	†	21	0.13
Mauritania	8	7	15	0.09
Mauritius	2	1	4	*
Mexico	761	32	792	4.96
Moldova	7	†	7	*
Mongolia	†	†	†	*
Morocco	112	2	114	0.72
Mozambique	14	1	15	0.09
Myanmar	1	5	6	*
Nepal	18	2	20	0.12
Nicaragua	7	1	7	*
Niger	10	†	10	0.06
Nigeria	179	156	335	2.10
Oman	2	2	3	*
Pakistan	248	39	287	1.80
Papua New Guinea	16	†	16	0.10
Paraguay	5	3	8	0.05
Peru	†	9	9	0.06
Philippines	229	11	240	1.50
Poland	29	56	85	0.53
Romania	1	15	16	0.10
Russia	4	125	129	0.81
Rwanda	11	†	11	0.07
São Tomé and Principe	3	—	3	*
Senegal	25	11	35	0.22
Seychelles	†	—	†	*
Sierra Leone	3	—	3	*
Slovak Republic	—	2	2	*
Slovenia	6	21	27	0.17
Solomon Islands	1	1	2	*
Sri Lanka	50	9	59	0.37
St. Lucia	†	2	2	*
St. Vincent and the Grenadines	†	†	†	*
Sudan	7	1	9	0.05
Tanzania	25	4	29	0.18
Thailand	92	56	148	0.93
Togo	3	1	4	*
Tonga	†	—	†	*
Trinidad and Tobago	2	16	17	0.11
Tunisia	64	7	70	0.44
Uganda	30	1	30	0.19
Ukraine	—	30	30	0.19
Uruguay	23	11	34	0.22
Vanuatu	†	—	†	*
Venezuela	25	55	80	0.50
Western Samoa	4	—	4	*
Yemen, Republic of	21	1	22	0.13
Zaire	8	6	14	0.09
Zambia	12	5	18	0.11
Zimbabwe	11	24	35	0.22
Total	7,201	2,066	9,267	58

— Zero, † less than $0.5 million, * less than 0.05 percent.

NOTE: Disbursements for debt reduction and net advance disbursements are excluded. Details may not add to totals because of rounding.

a. Refers to the share of all IBRD and IDA payments for fiscal 1994 (excluding disbursements for debt reduction), which totaled $15,979 million.

Table 4-4. **IBRD and IDA Payments to Supplying Countries for Foreign Procurement**
(amounts in millions of US dollars)

Supplying country	IBRD cumulative to June 30, 1994		IBRD fiscal 1994		IDA cumulative to June 30, 1994		IDA fiscal 1994	
	Amount	%	Amount	%	Amount	%	Amount	%
Afghanistan	2	*	†	*	1	*	†	*
Albania	†	*	—	*	†	*	†	*
Algeria	25	*	1	*	11	*	2	0.06
Angola	9	*	†	*	†	*	†	*
Antigua and Barbuda	1	*	†	*	1	*	—	*
Argentina	749	0.78	15	0.28	92	0.26	11	0.31
Australia	1,023	1.06	92	1.69	389	1.11	47	1.31
Austria	1,249	1.30	117	2.14	214	0.61	25	0.72
Bahamas, The	79	0.08	†	*	8	*	†	*
Bahrain	66	0.07	2	*	125	0.36	8	0.21
Bangladesh	13	*	†	*	39	0.11	6	0.16
Barbados	11	*	2	*	4	*	†	*
Belarus	†	*	—	*	†	*	†	*
Belgium	1,435	1.49	45	0.82	929	2.65	70	1.96
Belize	1	*	—	*	6	*	—	*
Benin	3	*	—	*	13	*	2	0.05
Bhutan	†	*	—	*	1	*	†	*
Bolivia	24	*	1	*	3	*	†	*
Botswana	6	*	1	*	7	*	2	*
Brazil	1,680	1.74	87	1.59	310	0.89	64	1.81
Bulgaria	13	*	9	0.17	8	*	7	0.18
Burkina Faso	1	*	†	*	7	*	1	*
Burundi	1	*	—	*	10	*	†	*
Cambodia	1	*	—	*	†	*	—	*
Cameroon	5	*	†	*	20	0.06	3	0.07
Canada	2,203	2.29	115	2.11	646	1.85	69	1.95
Cape Verde	†	*	—	*	†	*	†	*
Central African Republic	2	*	—	*	1	*	—	*
Chad	1	*	—	*	1	*	—	*
Chile	357	0.37	9	0.17	30	0.09	3	0.08
China	1,190	1.24	108	1.88	875	2.50	171	4.80
Colombia	208	0.22	5	0.09	14	*	1	*
Comoros	†	*	—	*	—	*	—	*
Congo	6	*	1	*	8	*	1	*
Costa Rica	31	*	5	0.10	11	*	1	*
Côte d'Ivoire	35	*	†	*	186	0.53	41	1.16
Croatia	13	*	8	0.14	5	*	3	0.09
Cyprus	24	*	2	*	30	0.09	19	0.54
Czech Republic	34	*	25	0.45	3	*	3	0.07
Czechoslovakia[a]	25	*	—	*	3	*	—	*
Denmark	633	0.66	59	1.08	271	0.77	37	1.04
Djibouti	†	*	—	*	23	0.07	1	*
Dominica	3	*	†	*	1	*	—	*
Dominican Republic	6	*	†	*	7	*	2	0.06
Ecuador	113	0.12	1	*	1	*	†	*
Egypt, Arab Republic of	47	*	1	*	28	0.08	5	0.14
El Salvador	18	*	1	*	3	*	†	*
Equatorial Guinea	†	*	—	*	5	*	5	0.14
Estonia	1	*	†	*	1	*	1	*
Ethiopia	1	*	—	*	11	*	8	0.23

Supplying country	IBRD cumulative to June 30, 1994		IBRD fiscal 1994		IDA cumulative to June 30, 1994		IDA fiscal 1994	
	Amount	%	Amount	%	Amount	%	Amount	%
Fiji	†	*	—	*	1	*	—	*
Finland	399	0.41	36	0.66	115	0.33	14	0.41
France	6,773	7.03	400	7.34	3,529	10.09	386	10.86
Gabon	14	*	†	*	10	*	1	*
Gambia, The	3	*	—	*	†	*	†	*
Germany	10,893	11.31	568	10.42	3,190	9.12	197	5.55
Ghana	10	*	1	*	6	*	2	0.07
Greece	182	0.19	7	0.12	64	0.18	8	0.21
Grenada	1	*	—	*	4	*	—	*
Guatemala	17	*	†	*	12	*	1	*
Guinea	3	*	—	*	1	*	†	*
Guinea-Bissau	†	*	†	*	5	*	3	0.08
Guyana	9	*	†	*	1	*	1	*
Haiti	6	*	1	*	4	*	†	*
Honduras	12	*	1	*	2	*	†	*
Hungary	254	0.26	59	1.08	23	0.07	2	0.07
Iceland	8	*	†	*	1	*	†	*
India	327	0.34	28	0.52	624	1.78	105	2.95
Indonesia	145	0.15	10	0.18	71	0.20	27	0.75
Iran, Islamic Republic of	144	0.15	†	*	184	0.53	7	0.21
Iraq	459	0.48	†	*	30	0.08	—	*
Ireland	125	0.13	5	0.08	77	0.22	14	0.38
Israel	230	0.24	16	0.29	87	0.25	10	0.28
Italy	5,348	5.55	227	4.15	1,529	4.37	128	3.61
Jamaica	16	*	†	*	1	*	†	*
Japan	13,473	13.99	464	8.50	3,887	11.11	228	6.40
Jordan	49	0.05	†	*	129	0.37	3	0.09
Kazakhstan	—	*	—	*	†	*	†	*
Kenya	28	*	†	*	220	0.63	50	1.42
Kiribati	—	*	—	*	†	*	†	*
Korea, Republic of	1,341	1.39	287	5.27	604	1.73	56	1.57
Kuwait	252	0.26	29	0.54	205	0.58	42	1.18
Kyrgyz Republic	†	*	†	*	—	*	—	*
Lao People's Dem. Rep.	12	*	12	0.21	†	*	—	*
Latvia	2	*	2	*	†	*	†	*
Lebanon	74	0.08	6	0.10	21	0.06	†	*
Lesotho	†	*	—	*	†	*	†	*
Liberia	26	*	—	*	21	0.06	2	0.06
Libya	92	0.10	†	*	7	*	—	*
Lithuania	2	*	2	*	†	*	†	*
Luxembourg	70	0.07	†	*	32	0.09	1	*
Macedonia, FYR	—	*	—	*	†	*	†	*
Madagascar	8	*	—	*	2	*	1	*
Malawi	2	*	1	*	10	*	1	*
Malaysia	321	0.33	10	0.18	215	0.61	17	0.48
Maldives	1	*	—	*	†	*	—	*
Mali	†	*	—	*	5	*	†	*
Malta	20	*	20	0.36	†	*	—	*
Mauritania	8	*	—	*	14	*	7	0.19

(continued)

Table 4-4 (continued)

Supplying country	IBRD cumulative to June 30, 1994		IBRD fiscal 1994		IDA cumulative to June 30, 1994		IDA fiscal 1994	
	Amount	%	Amount	%	Amount	%	Amount	%
Mauritius	1	*	†	*	13	*	1	*
Mexico	493	0.51	29	0.53	94	0.27	3	0.07
Moldova	†	*	†	*	—	*	—	*
Mongolia	†	*	—	*	1	*	—	*
Morocco	160	0.17	1	*	48	0.14	1	*
Mozambique	4	*	—	*	7	*	1	*
Myanmar	23	*	2	*	15	*	3	0.09
Namibia	†	*	—	*	1	*	†	*
Nepal	1	*	—	*	3	*	2	0.05
Netherlands	1,844	1.91	120	2.20	886	2.53	107	3.01
New Zealand	150	0.16	9	0.17	89	0.25	5	0.13
Nicaragua	9	*	1	*	6	*	†	*
Niger	3	*	†	*	10	*	†	*
Nigeria	388	0.40	74	1.36	300	0.86	82	2.30
Norway	309	0.32	57	1.04	122	0.35	21	0.60
Oman	37	*	1	*	14	*	1	*
Pakistan	109	0.11	12	0.21	164	0.47	27	0.77
Panama	370	0.38	8	0.15	48	0.14	21	0.59
Papua New Guinea	3	*	—	*	†	*	†	*
Paraguay	112	0.12	†	*	7	*	3	0.09
Peru	124	0.13	7	0.14	16	*	2	*
Philippines	69	0.07	3	*	78	0.22	8	0.23
Poland	164	0.17	54	0.98	41	0.12	2	0.07
Portugal	53	0.05	6	0.10	212	0.61	29	0.81
Qatar	123	0.13	†	*	13	*	4	0.10
Romania	252	0.26	12	0.22	64	0.18	3	0.08
Russia	150	0.16	120	2.20	8	*	5	0.13
Rwanda	3	*	—	*	1	*	†	*
São Tomé and Principe	—	*	—	*	†	*	—	*
Saudi Arabia	557	0.58	98	1.79	216	0.62	9	0.24
Senegal	23	*	2	*	68	0.20	9	0.25
Seychelles	—	*	—	*	†	*	—	*
Sierra Leone	4	*	—	*	2	*	—	*
Singapore	909	0.94	73	1.34	621	1.78	64	1.80
Slovak Republic	2	*	2	*	1	*	†	*
Slovenia	28	*	20	0.37	†	*	†	*
Solomon Islands	1	*	1	*	1	*	1	*
Somalia	1	*	—	*	2	*	—	*
South Africa	385	0.40	38	0.70	664	1.90	154	4.34
Spain	1,075	1.12	65	1.18	228	0.65	34	0.95
Sri Lanka	21	*	8	0.15	16	*	1	*
St. Kitts and Nevis	†	*	—	*	1	*	—	*
St. Lucia	1	*	†	*	4	*	1	*
St. Vincent and the Grenadines	†	*	—	*	4	*	†	*
Sudan	5	*	†	*	12	*	1	*
Suriname	1	*	—	*	2	*	†	*
Swaziland	18	*	†	*	22	0.06	5	0.15
Sweden	1,520	1.58	63	1.16	396	1.13	35	0.99
Switzerland	4,051	4.21	194	3.55	942	2.69	54	1.52
Syrian Arab Republic	24	*	†	*	14	*	2	*

Supplying country	IBRD cumulative to June 30, 1994 Amount	%	IBRD fiscal 1994 Amount	%	IDA cumulative to June 30, 1994 Amount	%	IDA fiscal 1994 Amount	%
Tanzania	7	*	†	*	20	0.06	3	0.09
Thailand	141	0.15	4	0.07	318	0.91	53	1.48
Togo	29	*	1	*	21	0.06	†	*
Tonga	—	*	—	*	†	*	—	*
Trinidad and Tobago	19	*	1	*	18	0.05	15	0.41
Tunisia	88	0.09	4	0.07	32	0.09	3	0.08
Turkey	218	0.23	43	0.79	42	0.12	9	0.25
Turkmenistan	—	*	—	*	1	*	1	*
Uganda	3	*	†	*	4	*	1	*
Ukraine	29	*	28	0.51	2	*	2	0.05
United Arab Emirates	536	0.56	2	*	333	0.95	23	0.64
United Kingdom[b]	7,380	7.66	523	9.59	4,797	13.71	438	12.34
United States	19,381	20.12	751	13.77	3,609	10.32	219	6.17
Uruguay	87	0.09	11	0.19	6	*	1	*
Uzbekistan	—	*	—	*	5	*	5	0.14
Vanuatu	5	*	—	*	†	*	—	*
Venezuela	465	0.48	18	0.33	167	0.48	37	1.05
Viet Nam	42	*	1	*	40	0.11	16	0.45
Western Samoa	2	*	—	*	†	*	—	*
Yemen, Republic of	†	*	†	*	207	0.59	†	*
Yugoslavia, SFR of[c]	854	0.89	5	0.10	169	0.48	4	0.12
Zaire	6	*	†	*	36	0.10	6	0.16
Zambia	29	*	1	*	107	0.30	5	0.13
Zimbabwe	34	*	†	*	85	0.24	24	0.67
~Other	867	0.90	86	1.57	182	0.52	52	1.47
Total	96,310	100	5,457	100	34,984	100	3,553	100

— Zero, † than $0.5 million, * less than 0.05 percent

NOTE: Disbursements for debt reduction and net advance disbursements are excluded. Details may not add to totals because of rounding.

a. Figures represent supply from the former Czechoslovakia prior to January 1, 1993.

b. United Kingdom includes Hong Kong.

c. Figures represent supply from SFR Yugoslavia in FY1994 for IBRD/IDA as follows: Bosnia-Herzegovina $4.2 million; Federal Republic of Yugoslavia (Serbia and Montenegro) $5.5 million.

borrowing country. While most foreign procurement comes from suppliers in developed member countries, suppliers from developing countries have increasingly been effective in winning contract awards. Through the end of fiscal 1989, 15 percent of foreign procurement was awarded to developing country suppliers; in fiscal 1994, developing country suppliers' share was 32 percent of total foreign disbursements.

Table 4-1 shows consolidated foreign and local disbursements for the IBRD and IDA through the end of fiscal 1989 and for each of the next five fiscal years to the end of fiscal 1994. Advance disbursements consist of payments made into special accounts of borrowers, from which funds are paid to specific suppliers as expenditures are incurred. Because balances in these accounts cannot be attributed to any specific supplying country until expenditures have been reported to the Bank, these are shown as a separate category.

Table 4-2 provides details for foreign disbursements by OECD and non-OECD countries for the IBRD and IDA separately.

Table 4-3 shows disbursements made in fiscal 1994 by the IBRD and IDA for local and foreign procurement from all active borrowing countries and disbursements made for goods, works, and services procured from them by other Bank borrowers for projects funded by the Bank.

Table 4-4 shows the amounts disbursed from the IBRD and IDA separately for foreign pro-

Table 4-5. **IBRD and IDA Payments to Supplying Countries for Foreign Procurement, by Description of Goods, Fiscal 1994**
(amounts in millions of US dollars)

Supplying country	Equipment		Civil works		Consultants		All other goods		Total disbursements	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Afghanistan	†	*	—	*	—	*	†	*	†	*
Albania	†	*	—	*	—	*	—	*	†	*
Algeria	3	*	—	*	—	*	—	*	3	*
Angola	†	*	—	*	—	*	—	*	†	*
Antigua and Barbuda	†	*	—	*	—	*	—	*	†	*
Argentina	20	0.27	5	0.90	1	0.10	1	0.22	26	0.29
Australia	117	1.59	1	0.26	20	2.59	1	0.29	139	1.54
Austria	134	1.82	1	0.14	6	0.82	2	0.47	142	1.58
Bahamas, The	†	*	†	*	—	*	—	*	†	*
Bahrain	5	0.07	1	0.21	†	*	3	0.94	9	0.10
Bangladesh	5	0.06	†	*	†	*	1	0.30	6	0.07
Barbados	†	*	2	0.31	†	*	†	*	2	*
Belarus	†	*	—	*	—	*	—	*	†	*
Belgium	89	1.22	5	0.90	13	1.73	7	2.05	115	1.27
Benin	†	*	2	0.28	†	*	—	*	2	*
Bhutan	†	*	†	*	—	*	—	*	†	*
Bolivia	1	*	—	*	†	*	—	*	1	*
Botswana	2	*	—	*	—	*	†	*	2	*
Brazil	139	1.90	8	1.4	3	0.36	1	0.39	151	1.68
Bulgaria	15	0.21	—	*	†	*	—	*	16	0.17
Burkina Faso	1	*	—	*	†	*	—	*	1	*
Burundi	†	*	—	*	†	*	†	*	†	*
Cameroon	3	*	†	*	†	*	—	*	3	*
Canada	106	1.44	6	1.02	68	8.82	5	1.52	184	2.05
Cape Verde	†	*	—	*	†	*	—	*	†	*
Central African Republic	†	*	—	*	—	*	—	*	†	*
Chile	10	0.13	—	*	2	0.31	†	*	12	0.13
China	164	2.24	92	16.13	4	0.54	13	3.63	273	3.03
Colombia	4	0.05	1	0.18	1	0.07	1	0.26	6	0.07
Congo	2	*	—	*	†	*	—	*	2	*
Costa Rica	1	*	—	*	5	0.64	†	*	6	0.07
Côte d'Ivoire	27	0.37	12	2.17	1	0.17	†	0.06	41	0.46
Croatia	2	*	8	1.47	—	*	—	*	11	0.12
Cyprus	21	0.28	—	*	1	0.10	†	*	21	0.24
Czech Republic	27	0.37	—	*	†	*	†	0.12	27	0.30
Denmark	63	0.86	15	2.68	17	2.22	1	0.20	96	1.06
Djibouti	†	*	—	*	—	*	1	0.26	1	*
Dominica	†	*	—	*	—	*	—	*	†	*
Dominican Republic	2	*	—	*	†	*	—	*	2	*
Ecuador	1	*	—	*	†	*	—	*	1	*
Egypt, Arab Republic of	3	*	2	0.36	1	0.08	†	0.05	6	0.06
El Salvador	1	*	—	*	—	*	—	*	1	*
Equatorial Guinea	5	0.07	—	*	—	*	—	*	5	0.05
Estonia	1	*	—	*	—	*	—	*	1	*
Ethiopia	8	0.11	—	*	†	0.05	†	*	8	0.09
Finland	47	0.65	—	*	2	0.28	1	0.30	50	0.56
France	628	8.58	66	11.46	85	11.13	7	2.02	786	8.72
Gabon	1	*	—	*	—	*	—	*	1	*
Gambia, The	—	*	†	*	†	*	†	*	†	*
Germany	657	8.97	45	7.88	44	5.74	20	5.68	766	8.50
Ghana	2	*	†	*	1	0.08	—	*	3	*

Supplying country	Equipment		Civil works		Consultants		All other goods		Total disbursements	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Greece	11	0.15	3	0.53	†	*	†	*	14	0.16
Guatemala	2	*	—	*	†	*	—	*	2	*
Guinea	—	*	—	*	†	*	—	*	†	*
Guinea-Bissau	3	*	—	*	—	*	—	*	3	*
Guyana	†	*	1	0.15	—	*	—	*	1	*
Haiti	1	*	—	*	†	*	—	*	1	*
Honduras	1	*	—	*	†	*	—	*	1	*
Hungary	56	0.76	5	0.91	1	0.07	—	*	61	0.68
Iceland	—	*	—	*	†	*	—	*	†	*
India	103	1.41	10	1.81	6	0.83	13	3.78	133	1.48
Indonesia	29	0.40	—	*	†	*	7	1.93	36	0.40
Iran, Islamic Republic of	7	0.10	—	*	—	*	—	*	7	0.08
Iraq	—	*	†	*	—	*	—	*	†	*
Ireland	8	0.11	†	0.08	9	1.13	1	0.32	18	0.20
Israel	21	0.28	—	*	5	0.62	†	0.13	26	0.29
Italy	259	3.53	81	14.09	8	1.03	8	2.20	355	3.94
Jamaica	—	*	—	*	†	*	†	*	†	*
Japan	632	8.63	25	4.42	18	2.30	17	4.73	691	7.67
Jordan	3	*	—	*	†	*	—	*	3	*
Kazakhstan	†	*	—	*	—	*	—	*	†	*
Kenya	15	0.21	†	*	5	0.65	30	8.56	50	0.56
Kiribati	†	*	—	*	—	*	—	*	†	*
Korea, Republic of	321	4.38	13	2.30	6	0.78	3	0.88	343	3.81
Kuwait	71	0.98	—	*	—	*	—	*	71	0.79
Kyrgyz Republic	†	*	—	*	—	*	—	*	†	*
Lao People's Dem. Rep.	12	0.16	—	*	†	*	—	*	12	0.13
Latvia	2	*	—	*	—	*	—	*	2	*
Lebanon	†	*	4	0.63	2	0.28	†	*	6	0.07
Lesotho	—	*	—	*	†	*	†	*	†	*
Liberia	1	*	1	0.19	—	*	—	*	2	*
Libya	†	*	—	*	—	*	—	*	†	*
Lithuania	2	*	—	*	—	*	—	*	2	*
Luxembourg	1	*	—	*	1	0.13	—	*	2	*
Macedonia, FYR	†	*	—	*	—	*	—	*	†	*
Madagascar	†	*	—	*	†	*	—	*	1	*
Malawi	1	*	—	*	†	*	†	0.11	1	*
Malaysia	23	0.32	1	0.18	†	*	2	0.56	27	0.30
Mali	—	*	†	*	†	*	—	*	†	*
Malta	20	0.27	—	*	—	*	—	*	20	0.22
Mauritania	7	0.09	—	*	—	*	—	*	7	0.08
Mauritius	†	*	—	*	†	0.06	†	0.09	1	*
Mexico	29	0.40	†	*	†	*	2	0.48	32	0.35
Moldova	†	*	—	*	—	*	—	*	†	*
Mongolia	†	*	—	*	—	*	—	*	†	*
Morocco	1	*	—	*	1	0.11	—	*	2	*
Mozambique	†	*	—	*	—	*	†	*	1	*
Myanmar	5	0.07	—	*	†	*	—	*	5	0.06
Namibia	†	*	—	*	—	*	†	*	†	*
Nepal	2	*	—	*	—	*	—	*	2	*

(continued)

Table 4-5 (continued)

Supplying country	Equipment		Civil works		Consultants		All other goods		Total disbursements	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Netherlands	186	2.54	10	1.80	27	3.46	5	1.38	227	2.52
New Zealand	9	0.12	1	0.25	4	0.48	†	*	14	0.16
Nicaragua	1	*	—	*	†	*	—	*	1	*
Niger	†	*	—	*	—	*	†	*	†	*
Nigeria	156	2.13	—	*	†	*	—	*	156	1.73
Norway	67	0.91	—	*	6	0.82	5	1.44	78	0.87
Oman	†	*	1	0.25	†	*	—	*	2	*
Pakistan	18	0.25	18	3.21	2	0.22	†	0.12	39	0.43
Panama	29	0.40	†	*	—	*	—	*	29	0.32
Papua New Guinea	†	*	—	*	—	*	—	*	†	*
Paraguay	2	*	1	0.26	†	*	—	*	3	*
Peru	7	0.10	—	*	†	*	2	0.49	9	0.10
Philippines	1	*	2	0.41	6	0.74	2	0.44	11	0.12
Poland	55	0.75	†	*	1	0.09	†	0.06	56	0.62
Portugal	16	0.22	1	0.11	15	2.01	2	0.71	34	0.38
Qatar	†	*	4	0.64	—	*	—	*	4	*
Romania	12	0.17	3	0.44	†	*	†	*	15	0.17
Russia	124	1.70	†	*	1	0.07	†	*	125	1.38
Rwanda	†	*	†	*	†	*	†	*	†	*
Saudi Arabia	104	1.42	1	0.13	—	*	2	0.53	106	1.18
Senegal	9	0.13	1	0.20	†	*	—	*	11	0.12
Singapore	119	1.62	4	0.78	7	0.93	7	1.95	137	1.52
Slovak Republic	2	*	—	*	—	*	†	*	2	*
Slovenia	18	0.24	2	0.43	†	*	†	0.10	21	0.23
Solomon Islands	1	*	—	*	—	*	†	*	1	*
South Africa	155	2.12	†	*	9	1.22	27	7.79	192	2.13
Spain	73	0.99	20	3.49	5	0.69	†	0.10	98	1.09
Sri Lanka	2	*	—	*	†	0.05	7	2.00	9	0.10
St. Lucia	†	*	1	0.24	—	*	†	*	2	*
St. Vincent and the Grenadines	—	*	†	*	†	*	—	*	†	*
Sudan	1	*	†	*	†	*	†	*	1	*
Suriname	—	*	—	*	†	*	—	*	†	*
Swaziland	5	0.06	—	*	†	*	1	0.25	6	0.06
Sweden	84	1.14	4	0.76	4	0.53	6	1.75	98	1.09
Switzerland	216	2.95	9	1.51	16	2.14	7	2.06	248	2.75
Syrian Arab Republic	2	*	—	*	†	*	†	*	2	*
Tanzania	3	*	†	*	†	*	1	0.25	4	*
Thailand	54	0.74	2	0.28	†	*	†	0.12	56	0.63
Togo	1	*	—	*	—	*	—	*	1	*
Trinidad and Tobago	15	0.21	†	*	†	*	†	*	16	0.17
Tunisia	6	0.08	—	*	†	0.06	†	*	7	0.07
Turkey	50	0.68	1	0.12	1	0.08	1	0.21	52	0.58
Turkmenistan	1	*	—	*	—	*	—	*	1	*
Uganda	†	*	†	*	†	*	†	*	1	*
Ukraine	29	0.39	—	*	—	*	1	0.32	30	0.33
United Arab Emirates	14	0.19	3	0.59	—	*	7	1.91	24	0.27
United Kingdom[a]	774	10.57	23	3.94	112	14.59	53	15.17	961	10.67
United States	775	10.59	28	4.82	149	19.43	19	5.45	971	10.77
Uruguay	11	0.16	—	*	—	*	—	*	11	0.13
Uzbekistan	5	0.07	—	*	—	*	—	*	5	0.06

***Table 4-5** (continued)*

Supplying country	Equipment Amount	Equipment %	Civil works Amount	Civil works %	Consultants Amount	Consultants %	All other goods Amount	All other goods %	Total disbursements Amount	Total disbursements %
Venezuela	55	0.76	—	*	†	*	—	*	55	0.62
Viet Nam	16	0.23	†	0.06	—	*	—	*	17	0.19
Yemen, Republic of	†	*	†	0.08	—	*	†	*	1	*
Yugoslavia, SFR of[b]	1	*	9	1.50	—	*	—	*	10	0.11
Zaire	6	0.08	—	*	†	*	—	*	6	0.06
Zambia	4	0.06	†	*	†	*	†	0.13	5	0.06
Zimbabwe	21	0.29	—	*	1	0.08	2	0.57	24	0.26
~Other	35	0.48	1	0.24	60	7.76	41	11.86	138	1.53
Total	7,319	100	573	100	767	100	350	100	9,009	100

— Zero, † less than $0.5 million, * less than 0.05 percent.

NOTE: Disbursements for debt reduction and net advance disbursements are excluded. Details may not add to totals because of rounding.

a. United Kingdom includes Hong Kong.

b. Figures represent supply from SFR Yugoslavia in FY94 for IBRD/IDA as follows: Bosnia-Herzegovina $4.2 million; Federal Republic of Yugoslavia (Serbia and Montenegro) $5.5 million.

***Table 4-6.* IBRD and IDA Foreign Disbursements, by Description of Goods, for Investment Lending, Fiscal 1992–94**

Item	1992 OECD	1992 Non-OECD	1992 Total	1993 OECD	1993 Non-OECD	1993 Total	1994 OECD	1994 Non-OECD	1994 Total
	millions of US dollars								
Investment lending									
Civil works	339	154	493	337	176	513	317	209	526
Consultants	577	72	649	612	105	717	615	125	740
Goods	2,665	456	3,121	2,888	597	3,485	2,816	865	3,681
All other	81	50	132	246	142	388	59	70	128
Total	3,662	732	4,394	4,083	1,020	5,103	3,807	1,268	5,075
	percent[a]								
Civil works	69	31	11	66	34	10	60	40	10
Consultants	89	11	15	85	15	14	83	17	15
Goods	85	15	71	83	17	68	77	23	73
All other	61	38	3	63	37	8	46	55	3
Total	83	17	100	80	20	100	75	25	100

NOTE: Disbursements for debt reduction and net advance disbursements are excluded. Disbursements for structural adjustment loans, sector adjustment loans, and hybrids (loans that support policy and institutional reforms in a specific sector by financing both a policy component disbursed against imports and an investment component) are also excluded. OECD amounts are based on current OECD membership, excluding Mexico, which became a member in May 1994.

All of the percentages are based on the dollar amounts shown under the total disbursements section. These percentages show both the breakdown between OECD and non-OECD countries for individual goods categories and the share of each goods category compared with total disbursements.

curement of goods and services from member countries in fiscal 1994 and cumulatively through fiscal 1994.

Table 4-5 shows the proportion of foreign disbursements from the IBRD and IDA for specific categories of goods and services provided by member countries in fiscal 1994.

Table 4-6 provides a summary listing of the amounts paid to OECD and non-OECD country suppliers in each fiscal year from 1992 to 1994 under investment projects. Amounts disbursed are compared with respect to significant categories of goods procured from foreign suppliers. The extent to which OECD and non-OECD countries participated in supplying these major categories of goods in each of the past three fiscal years is also compared.

In all of these tables IBRD figures exclude disbursements for loans to the International Finance Corporation and "B" loans. IDA figures include Special Fund and Special Facility for sub-Saharan Africa credits. Disbursements for

Project Preparation Facility advances are excluded for both the IBRD and IDA. Minor adjustments have been made between the foreign and local disbursements for fiscal 1993 as reflected in Tables 4-1, 4-2, 4-4, and 4-6.

Technical Assistance

Technical assistance activities financed through IBRD loans and IDA credits continue to represent a significant segment of total Bank lending. A number of reasons underlie the increase in technical assistance activity in recent years.

- First, an increase in technical assistance for institutional development is an appropriate complementary response to efforts to deepen policy reform and retool the public sector for its new roles. It may also reflect the current phase of Bank assistance after key macro policy changes have been put in place.
- Second, there has been a shift in lending to human resources development and environmentally sustainable development and away from adjustment loans. Historically, these sectors have had the highest percentage of technical assistance components as a share of total lending—well above 10 percent.
- Third, there has been a general decline in grant funding for technical assistance from the United Nations Development Programme (UNDP) and bilateral donors, particularly to some of the Bank's major borrowers who are major recipients of technical assistance components.

Loan-financed technical assistance (freestanding and components) by the Bank in calendar year 1993 amounted to $2.2 billion. Of this amount, $1.9 billion, or 85 percent of the total, funded components of projects, while $300 million was accounted for by twenty-two freestanding technical assistance projects. Ten countries (led by Brazil, China, Indonesia, and Mexico) accounted for more than half of all technical assistance financed through Bank lending. These large technical assistance borrowers share common characteristics: They are long-standing, mature borrowers and have the capacity to work with the Bank in determining their technical assistance needs. In addition, because most receive inconsequential amounts of technical assistance grants from bilateral and multilateral donors, the technical assistance provided by the Bank is highly valued.

Key issues of technical assistance. With the drive toward open and competitive markets of hitherto centralized economies, a new set of issues is emerging. In many countries, downsizing the large bureaucracies that have been set up to manage state-led economic policies is a major challenge. There is the need to restore efficiency and commitment within the civil service, which has been eroded over time by the politicization of career management and declining remuneration in real terms. This deterioration in public administration constitutes a major obstacle to launching needed policy reforms, restoring good governance, and improving the delivery of public services.

The Bank is paying increased attention to the strategic management of technical assistance for institutional development through the targeting of public sector management and institutional development issues in economic and sector work and country-strategy work. A by-product of this increased upstream effort is an enhanced policy dialogue with governments on systemic institutional issues and countrywide management of technical assistance. The result could be reform-based adjustment operations, freestanding technical assistance, and improved institutional development interventions in projects. Overall, although there has been some progress in this area and some best practices are emerging, more time is required to build up skills in macro-institutional analysis and to integrate public sector management issues into economic and sector work and the country dialogue. In a number of countries, these issues are highly sensitive and require time and persistence to build up borrower ownership and commitment at the highest levels.

Use of local consultants. The Bank encourages borrowers to employ local consultants either alone or in combination with foreign firms. To some extent, however, local consultants have been handicapped by a lack of marketing expertise. The Bank is currently financing the preparation of a "how-to" manual that deals with consultant operations and marketing. When finished, it will be the focus of discussion in one-week seminars in preselected borrowing member countries. The Bank will follow up the seminars by monitoring progress made by local firms and by facilitating their association with firms from industrialized countries.

In addition, during the past year, workshops were held at the Bank's headquarters for consultant associations from Africa, Asia, and Latin America to review ways and means to enhance participation of their member firms. The increased emphasis the Bank is giving to the issue of local consultant use is, in part, a response to feedback from borrowers that the development of greater institutional capability is essential to project success—and that this includes making more use, and improving the capabilities, of local consultants.

Institutional Development Fund (IDF). The IDF, which became effective on July 1, 1992,

was designed to fill gaps in the Bank's set of instruments for financing technical assistance for institutional development work associated with policy reform, country economic management programs, poverty-reduction programs, public sector management, private sector development, and environment management.

The IDF provides a quick-response instrument for funding small, action-oriented proposals identified during (and closely linked to) the Bank's economic and sector work and policy dialogue in countries where institutional development is a significant country-assistance objective. There is a $500,000 ceiling on individual grants. All borrowing member countries of the Bank are eligible to apply.

The introduction of the IDF was partially driven by the expectation of a pent-up demand for a grant facility to address capacity-building requirements in many countries. This expectation has not yet fully materialized. Demand for IDF resources has been limited partly as a result of its newness and also because of the availability of resources from competing trust funds. In calendar year 1993, fifty-three grants were approved to forty-three countries for a total amount of $14.3 million. Some delays in implementation have occurred, inevitably caused by the introduction of a new program that required putting in place special procedures and familiarizing member governments and staff with the new grant facility.

Notwithstanding the IDF's modest start-up, the use of IDF funds has permitted the Bank to help initiate difficult institutional changes, such as reform of economic ministries in Albania, disseminate the experience of privatization in Poland, and enable timely work to begin on a privatization strategy for Belarus.

Project Preparation Facility (PPF). The PPF was established in 1975 when the executive directors authorized the Bank's president to approve project preparation advances to an aggregate amount of $5 million. At the time, it was expected that the typical tasks would cost in the range of $50,000–$150,000. This limit was subsequently raised in 1978 to $1 million and to $1.5 million in 1986.

During fiscal 1994, a new ceiling of $2 million per advance was established for all advances except those in connection with loans exceeding $200 million; for them, the ceiling was set at $3 million.

At the end of calendar year 1993, 138 PPF advances had been approved, involving a total commitment of $84 million. One hundred one advances, for an amount of $49.6 million, had been made on IDA terms, and thirty-seven advances, for an amount of $34.3 million, had been made on IBRD terms. Most of the advances have been made to sub-Saharan African countries.

The Bank and the UNDP. The Bank interacts with the UNDP through many programs and at many levels. During calendar year 1993, the Bank was the executing agency for 132 UNDP projects having a total value of $303 million. This reflects a decline from 1992, when the Bank was the executing agency for 175 projects with a total value of $348 million. This trend is expected to continue as the UNDP's total resources continue to decline and as the UNDP accelerates the shift from agency execution to national execution and from project to program financing. At present, the loss of funding by the UNDP has been more than adequately compensated for by funding from other sources, notably Japan's Policy and Human Resources Development Fund. In the long term, however, the decline of untied grant fund for technical assistance from the UNDP will be felt in many operations. The Bank and the UNDP are reviewing the implications of this trend.

At the same time, many borrowers, particularly in Latin America, are using the services of the UNDP to implement technical assistance financed by the Bank. This is done through two mechanisms: first, a cost-sharing arrangement under which proceeds from Bank loans are comingled with UNDP funds to create unified UNDP projects, executed either by the UNDP or by others; second, a management-service agreement—a form of contractual relationship between the Bank's borrower and the Office of Project Services of the UNDP for the implementation of Bank-financed technical assistance. This arrangement is particularly helpful in expediting implementation by taking advantage of the UNDP's "privileges and immunities" to process important transactions with minimum delay.

The Bank and the UNDP also collaborate in the field of aid coordination to ensure that technical assistance issues receive adequate attention at consultative group meetings chaired by the Bank and at roundtables chaired by the UNDP.

Cofinancing

The Cofinancing and Financial Advisory Services (CFS) vice presidency continued to play a catalytic role in facilitating the flow of financial resources to developing countries by undertaking various activities relating to cofinancing, project financing, and private sector development. These activities included providing operational support and technical assistance to the Bank's country departments, borrowing member countries, and cofinancing

partners such as donor governments, official development aid agencies, export-credit agencies, and international financial markets.

In fiscal 1994, the volume of cofinancing anticipated in support of Bank-assisted operations was $8.8 billion, down from the $11.6 billion mobilized in fiscal 1993 (see Table 4-7). This reduction was directly related to the declines in IBRD and IDA lending commitments during the year, which fell short of fiscal 1993 amounts by $2,860 million.

The decline is also the result of economic slowdown in both donor and borrowing countries, which has contributed to a significant cut in aid and investment budgets on both the supply and the demand sides. The diminishing weight of quick-disbursing operations in the portfolio of Bank operations, as well as the slow pace of the project cycle arising from the increased attention to qualitative aspects of interventions, also played a role. Nonetheless, the decline in cofinancing is viewed with concern in view of the need for increased financial flows to developing countries.

The cofinancing figures, which represent planned cofinancing, not actual commitments by cofinanciers, are captured at the time of the presentation to the executive board of each IBRD and IDA operation.

About 51 percent of all Bank-assisted projects and programs were cofinanced in fiscal 1994, up from 49 percent in the previous year. Although official cofinancing declined to $6.3 billion from $8.1 billion in fiscal 1993, it still accounted for the largest source of anticipated cofinancing support, some 72 percent of the total. Export credit and private cofinancing fell from $1.2 billion to $591 million and $2.3 billion to $1.9 billion, respectively. The only notable exception to this trend was the support mobilized from the private sector in the East Asia and Pacific region, which reached $1.3 billion for the year, compared with $373 million during fiscal 1993. Investment loans received the largest share of cofinancing support, followed by structural adjustment loans and sector adjustment loans.

In fiscal 1994, official cofinancing provided by Japan's Overseas Economic Cooperation Fund and the Export-Import Bank of Japan continued to account for the largest percentage of bilateral support to Bank-assisted operations, reaching a total of $1,404 million equivalent for thirteen projects approved in fiscal 1994, or 48 percent of the aggregate amount of bilateral cofinancing. Other large bilateral cofinancing support came from Germany ($196 million equivalent), France ($84 million equivalent), Sweden ($78 million equivalent), the United Kingdom ($71 million equivalent), and the United States ($66 million). Total cofinancing currently expected from multilateral financial institutions amounted to $3.4 billion. The Inter-American Development Bank, with $1,021 million of planned cofinancing, continued to be the largest multilateral cofinancier, accounting for 30 percent of the total.

The power sector attracted the largest amount of cofinancing with an aggregate of $2,100 million (as opposed to $3,116 million in fiscal 1993). It was followed by transportation ($1,929 million, down from $2,107 million in the previous year); agriculture ($1,106 million); telecommunications ($519 million); and the multisector category of lending, which includes lending in support of reform programs and of reconstruction and rehabilitation programs ($437 million).

In fiscal 1994, three main activities were carried out in CFS to formulate a policy framework to facilitate cofinancing as a main business tool. They were (a) the undertaking of a Cofinancing Task Force study that focused on developing a coherent Bank policy on cofinancing and identifying other ways the Bank can play a catalytic role in facilitating capital flows to developing countries; (b) the launching of a special policy study on how to mainstream the use of guarantees to mobilize private capital in support of Bank operations, particularly for privatized energy and infrastructure investments; and (c) the establishment of Accelerated Cofinancing Facilities with the Export-Import Bank of Japan, under which cofinancing will be arranged using an accelerated and streamlined procedure.

In March 1994, the Cofinancing Task Force issued a report that addressed various cofinancing-related issues and concerns. The task force concluded that cofinancing has been, and will continue to be, an important activity for the Bank as an instrument for maintaining partnerships between the Bank and other donors to accomplish joint objectives and to mobilize significant development resources from official institutions, private sources, and export-credit agencies.

The Accelerated Cofinancing Facilities with the Export-Import Bank of Japan are designed to tap Japan's ever-increasing official development assistance in a more active and systematic manner. In the summer of 1993, the Japanese authorities announced their Funds for Development Initiative, consisting of a pledge totaling approximately $120 billion equivalent over the 1993–97 period. The Japanese authorities emphasized cofinancing with the Bank and other international development institutions as one of the initiative's operational priorities. The facilities would allow

***Table 4-7.* World Bank Cofinancing Operations, by Region, Fiscal Years 1993–94**
(amounts in millions of US dollars)

Region and year	Projects cofinanced		Source of cofinancing[a]						World Bank contribution		Total project costs
			Official[b]		Export credit		Private				
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	IBRD	IDA	
Africa											
1993	41	1,198.6	41	1,185.1	1	10.0	2	3.5	27.0	1,588.9	3,288.3
1994	35	1,592.9	31	1,538.4	—	—	8	54.5	7.7	1,649.4	3,698.9
East Asia and Pacific											
1993	13	1,113.1	11	583.9	2	156.5	2	372.7	880.4	166.9	3,392.2
1994	14	1,948.0	9	515.2	1	92.0	7	1,340.8	1,898.5	634.9	7,261.8
South Asia											
1993	11	2,189.0	11	1,800.0	2	289.0	1	100.0	1,145.0	949.0	8,182.2
1994	9	1,584.1	9	1,258.7	1	300.0	1	25.4	474.0	948.7	8,875.7
Europe and Central Asia											
1993	18	1,433.5	18	1,433.5	—	—	—	—	2,041.0	100.4	4,351.7
1994	25	1,280.0	22	901.4	3	173.6	5	205.0	2,253.3	44.6	4,965.7
Latin America and the Caribbean											
1993	27	3,741.6	27	2,008.7	1	699.8	3	1,033.1	2,721.3	248.5	10,565.7
1994	25	1,582.7	22	1,447.5	1	1.9	5	133.3	1,739.5	264.5	5,615.1
Middle East and North Africa											
1993	10	1,919.9	8	1,077.4	1	47.8	3	794.7	1,239.0	—	6,132.0
1994	9	781.3	8	649.5	1	23.0	2	108.8	561.0	100.0	3,213.0
Total											
1993	120	11,595.6	116	8,088.5	7	1,203.1	11	2,304.0	8,053.7	3,053.7	35,912.0
1994	117	8,768.9	101	6,310.6	7	590.5	28	1,867.8	6,934.0	3,642.1	33,628.8

— Zero.

NOTE: The number of operations shown under different sources add up to a figure exceeding the total number of cofinanced projects because a number of projects were cofinanced from more than one source. Details may not add to totals because of rounding.

a. These statistics are compiled from the financing plans presented at the time of approval of the World Bank loans and credits by its board of executive directors. The amounts of official cofinancing are, in most cases, firm commitments by that stage; export credits and private cofinancing amounts, however, are generally only estimates since such cofinancing is actually arranged as required for project implementation and gets firmed up a year or two after board approval. The statistics of private cofinancing in these tables for any fiscal year do not necessarily reflect market placements in that year.

b. These figures include cofinancing with untied loans from the Export-Import Bank of Japan.

the Bank to mobilize cofinancing resources more easily and systematically in support of its priority operations. Similar cofinancing arrangements will be pursued with other donor countries.

The Special Program of Assistance (SPA) for sub-Saharan Africa constituted the most important aid coordination and cofinancing exercise promoted by the Africa region. The third phase of the program was launched in October 1993, covering the period 1994–96. By the time of the April 1994 meeting of SPA donors, $6.6 billion of quick-disbursing balance-of-payments assistance had already been pledged. In addition to mobilizing resources, the key SPA objective of improving the quality of donors' adjustment assistance was also advanced during fiscal 1994. Of particular importance in this context was the adoption of guidelines for donor financing of civil service compensation, which will be followed in future interventions by donor member countries participating in the program. Considerable progress was also made in implementing previously approved SPA guidelines for simplifying and harmonizing donors' procedures for disbursing balance-of-payments support.

As in previous years, the donor community provided substantial support throughout the year to the Bank through trust funds and other external funding arrangements. Contrary to generally decreasing cofinancing trends, this type of support is growing. The Policy and Human Resources Development (PHRD) Fund,

financed by Japan, continued to provide a broad range of support for various Bank-supported programs and projects in fiscal 1994. Fund grants totaling $141 million were approved for technical assistance for preparing 200 Bank-assisted projects in eighty-seven countries. Continuing support was also provided to the EDI and to finance scholarship grants. Among the special programs approved was a grant to support Russia's privatization and restructuring program. The first operational review of the PHRD Fund, completed during fiscal 1994, concluded that the fund was fully meeting the objectives for which it was established and that it had been particularly effective as a source of untied technical assistance for project preparation. The review also noted that the fund also helped the Bank expedite its work on private sector development.

The Consultant Trust Fund Program—which makes available consultancy services in support of the Bank's operational work in borrowing member countries—also continued to grow. Ten new trust funds were established in fiscal 1994, with grants totaling $29 million. The program, which is now supported by twenty-six donors, including four developing member countries, allocated $52 million in fiscal 1994, enabling the Bank to tap new sources of expertise and to undertake a wider range of analytical work in priority areas and issues, including the environment, poverty reduction, health and nutrition, and women in development.

Projects in the power, telecommunications, and transport sectors dominated CFS's project-finance activities in fiscal 1994, with substantial increases taking place in the use of expanded cofinancing operations (ECOs). The ECO program uses limited Bank guarantees against certain specified risks, such as sovereign risks, to encourage private financing, obtain or increase access to capital markets, and provide improved terms—especially longer maturities—for projects in developing countries. In March 1994, the executive board approved a $120 million ECO in the syndicated loan market for China's Yangzhou Power Project, while in May, proposals for a $100 million ECO to support commercial bond financing for part of the $1.3 billion Leyte-Luzon Geothermal Power Project in the Philippines and for an ECO guarantee of up to $50 million to help finance a telecommunications project in Jordan were approved. Other ECOs under active development include those for projects in Chad, China, Colombia, Lebanon, and Morocco. The CFS vice presidency is also engaged in structuring non-ECO project finance for power in Jamaica and the Dominican Republic, tourism in Egypt, and for a variety of projects in Pakistan, Sri Lanka, Tanzania, and elsewhere.

CFS continues to provide specialized advisory services to member countries on debt reduction under both the Debt-reduction Facility for IDA-only Countries and the "Brady" type of debt and debt-service reduction (DDSR) program. CFS, which administers the Debt-reduction Facility, provides extensive legal and reconciliation work prior to the structuring of complex debt-reduction operations. During the year, facility operations were completed in Uganda and Bolivia, while similar operations were under preparation in Albania, Ethiopia, Guinea, Mali, Mauritania, Nicaragua, São Tomé and Principe, Sierra Leone, Tanzania, and Zambia. Under CFS's monitoring of the DDSR program, extensive financial and sensitivity analyses are performed, and soundings are conducted to assess the receptivity of markets and creditors to proposed DDSR packages. DDSR operations under preparation include those for Bulgaria, the Dominican Republic, and Poland. A deal for Brazil was completed in April 1994.

CFS consolidated its position as a technical center for privatization and private sector development services. The primary focus continued to be on providing technical services to the Bank's six operational regions for the design and implementation of Bank privatization and private sector development operations. Specialized support was given to almost fifty projects covering all aspects of public enterprise reform, privatization programs, divestitures, and project financing. Increasing focus was given to private sector participation in infrastructure sectors such as telecommunications, transport, and water supply.[1]

Several technical assistance programs—in Argentina, Kazakhstan, Pakistan, Romania, and Ukraine, for example—were managed directly by CFS in support of privatization programs. Pilot projects were also implemented in areas such as small-scale privatization, retail sector privatization, trucking privatization, and the development of business programs in a number of the republics of the former Soviet Union. In Pakistan, a team was rapidly deployed to help reinvigorate Pakistan's privatization program, while in Romania an innovative assistance effort was mounted to help develop management contracts as one of the country's privatization strategies. This direct assistance to client governments was le-

[1] Details of the Bank's activities in private sector development during the year may be found beginning on page 50.

veraged by funds mobilized from bilateral donors.

Best practice and comparative studies were also undertaken to disseminate cross-country experience, and new instruments and approaches were designed to mobilize private finance for privatization and enterprise development. Six papers in the "CFS Discussion Papers" series were published, and three studies were launched, one assessing Eastern Europe's experience with medium-scale and large-scale trade sales, another comparing international postal reforms, and a third reviewing private sector support for the power sector in several developing countries.

Improving Portfolio Management, Accountability, and Openness

In fiscal year 1992, the Task Force on Portfolio Management, charged with examining the quality of the World Bank's project portfolio and making recommendations on what might be needed to reverse the decline in the proportion of successful projects over the past decade, was formed.

Its report, transmitted to the Bank's executive board in November 1992, found that although more than three quarters of Bank-assisted projects demonstrated good performance during implementation, there had been a decline in the performance of the portfolio. According to the report, worsening external and country environments contributed prominently to the performance decline. Certain aspects of Bank practice also contributed to portfolio-management problems or were not sufficiently effective in resolving them. The task force's fundamental conclusion was that the institution needed to modify some of its key institutional values that shape its approach to all facets of its lending operations.

Early in fiscal 1994, the executive directors endorsed a detailed plan of action designed to make the Bank more effective in pursuing its basic goal of reducing poverty in borrowing countries.

As the core of its action plan, the Bank introduced a country-by-country approach into the management of its lending operations. This was designed to allow it to take a strategic view of its $148 billion portfolio. To complement the changes it made in its own policies and practices, the Bank began collaborating with the authorities in borrowing countries to review the performance of the portfolio in each country and resolve systemic problems.[2]

The various initiatives set in motion to improve portfolio performance represented an important shift in the Bank's business practices—from what was perceived to be an excessive preoccupation with lending targets and volumes to a greater concern with the development results in the field of Bank-supported operations.

Since the executive directors' approval of the action plan in July 1993, significant progress has been made in various areas. They include, but are not limited to:

- Placing portfolio performance, or the management of operations under implementation, at the center of country-assistance strategies. Improved guidelines for the formulation of country-assistance strategies now mandate that the Bank's six operational regions account for portfolio performance in the design of their country-assistance strategies and business plans.
- Restructuring projects and country portfolios, and, as a measure of last resort, canceling problem projects.
- Improving the quality of projects at entry by ensuring country commitment to the project at the outset, fostering broad-based participation in project design, and monitoring stakeholder commitment throughout the life of the project.
- Simplifying and modifying the Bank's cofinancing practices so as to minimize project complexity that is often associated with cofinancing.
- Introducing more rigorous analysis of project risk and sensitivity during project preparation and throughout implementation through the issuance of new operational policy and Bank procedures statements, as well as the distribution of a handbook on risk and sensitivity analysis that provides more extensive guidance at the sectoral level.
- Increasing budgetary resources devoted to project supervision, including increasing the role of field offices in enhancing portfolio management.
- Enhancing the role of the Operations Evaluation Department (OED) and strengthening the application of evaluation results to the Bank's current operations.[3]
- Providing intensive training to borrowers on the Bank's procurement processes so as to speed up project implementation. For its part, the Bank is preparing standard bidding documents for some specialized areas of procurement, and a committee was formed to ensure Bankwide consistency on decisions for the award of large contracts.

[2] Details of the task force's report, as well as of the action plan endorsed by the Bank's executive directors, may be found on pages 60–64 of the World Bank *Annual Report* for fiscal 1993.

[3] For details, see page 154.

Box 4-1. Independent Inspection Panel Is Established

An independent Inspection Panel, which will receive and investigate complaints that the Bank has not followed its own policies and procedures with respect to the design, appraisal, and/or implementation of a development project that it supports, was established in fiscal 1994, and the appointment of its chairman and members announced in April 1994.

The panel complements the Bank's existing systems for quality control in project preparation and implementation. As such, it will help the executive board in its governance of the Bank and will not affect the president's accountability to the executive directors for the management of Bank operations. The panel is part of the Bank's policy of improving project implementation, accountability, and openness. The panel will be functionally independent and will report directly to the Bank's executive board.

The environment favoring the establishment of an independent inspection function in the Bank was fostered by the confluence of two events: the taking of office in September 1991 of a new World Bank president, who undertook to review the overall efficiency of Bank operations, and growing criticism of the Bank on the part of nongovernmental organizations, which reflected a broad concern by some of the Bank's larger shareholders that international organizations in general, and the Bank in particular, should be more open in their activities.

Since 1991, as well, some members of the Bank's executive board, in discussions on operations evaluation and on certain problematic projects, advocated the establishment of an inspection unit. This resulted in a proposal in February 1993 by four members of the Bank's executive board for the establishment of an inspection unit to evaluate ongoing projects. A management proposal was discussed by the executive board in July, together with the February proposal; at that time, broad agreement was reached on the need for an inspection function. Subsequent discussion, including discussion on a compromise proposal, led to the decision in September 1993 to establish the panel in its current form.

An investigation by the panel must be requested by a group of people adversely affected by a particular Bank project. After the Bank's executive directors have considered a request for inspection, the Bank will make publicly available the request for inspection, the panel's recommendations on the request, and the executive directors' decision on whether to proceed. The Bank will also make publicly available the panel's report on its investigation and the management's response to it. In addition, the panel's annual report to the executive board will be published by the Bank.

Inspection in the territory of a country will be undertaken with the consent of its government.

Panel members are appointed on the basis of their professional qualifications, as well as their developmental knowledge and experience. Members are nominated by the Bank's president and are appointed by the executive directors. The members, other than the chairman, will serve initially on a part-time basis.

Appointed for a five-year term was Ernst-Gunther Broder, who served as president of the European Investment Bank and as German governor of the European Bank for Reconstruction and Development. Mr. Broder will serve as the panel's first chairman.

Alvaro Umaña Quesada, who served as minister of natural resources for Costa Rica and has been a board member of several environmental and research institutes, was appointed for a four-year term.

Richard Etter Bissell, who served for several years with the United States Agency for International Development and who has taught and overseen research at several American universities and research institutes, was appointed for three years.

By the end of fiscal 1994, the inspectors had accepted their appointments, effective August 1. The panel is expected to open for business during the first week of September.

• Enhancing those staff skills required for good portfolio management. Some 122 new staff in the seven skills areas identified as being both critical to the process and in short supply—environment, financial sector development, population and human resources, private sector development, the social sciences of anthropology and sociology, procurement, and public sector management—were recruited during fiscal year 1994.

• Developing a new training curriculum that emphasizes portfolio management and related Bank and professional skills and introducing a new performance-evaluation system designed to recognize and reward portfolio-performance management skills.

• Establishing an independent inspection panel for the review of Bank-supported projects (see Box 4-1).

• Opening a Public Information Center, which makes available to the public previously restricted operational documents (see Box 4-2).

In July 1993, a commitment was made to undertake eighty-four actions during fiscal 1994 to enhance portfolio management. According to a report made available to the executive board at

Box 4-2. Public Access to Bank Information Expands

The public's access to the World Bank's operational information was significantly expanded in fiscal 1994 with the opening at the Bank's headquarters in Washington, D.C. of a Public Information Center that responds to requests from interested parties for a variety of documents, ranging from staff appraisal reports and environmental assessments to descriptions of individual projects under preparation.

Although the Bank's relationship of trust with its borrowers rests on the institution's ability to maintain the confidentiality of certain types of information, in recent years there has been a presumption in favor of disclosure, both outside and within the Bank, in the absence of a compelling reason not to disclose. It was that presumption that was expanded during the year.

Information available at the center and through the offices of the Bank in London, Paris, Tokyo, and through other field offices includes:

- A new project information document for all projects under preparation. The document provides substantially more information on projects—and at an earlier stage—than has hitherto been available. The availability of this information will allow interested parties to raise substantive questions and concerns at an early stage.
- Staff appraisal reports—once the project concerned has been approved by the executive board. The availability of these documents is expected to help increase participation during project implementation by those affected by the project.
- Country economic and sector work (CESW). Although many CESW reports were being published after government concurrence, there is now a presumption that all these reports will be made available to the public. The Bank will continue to consult with the governments concerned to insure that confidential information is protected.
- Environmental assessments. Public availability of environmental assessment reports and analyses—before project appraisal—was expanded to include, with the borrower's consent, assessment reports and analyses for all IBRD projects, thus unifying Bankwide policy on the issue. (Availability of environmental assessment reports of IDA projects was assured in July 1993.)
- Summaries of evaluation reports, prepared by the Bank's independent Operations Evaluation Department, are included in the expanded list of public documents.
- Legal opinions prepared for the executive board, access to which had been restricted under the rule of confidentiality of board proceedings, may now be made publicly available by decision of the board on a case-by-case basis.

Interested parties can use the Internet computer network to access project information documents and to view (and order) the titles of all Bank documents available on request, as well as the abstracts and entire text of selected documents. The project information documents and environmental data sheets are available worldwide free of charge. Documents on a country where there is a Bank field office are provided free of charge at that office. Residents of a country where there is no Bank field office may obtain documents on their own country free of charge through the Public Information Center in Washington, D.C. All other documents carry a standard charge of $15.

the end of the past fiscal year, almost all of those actions—most of them grouped within the areas as described above—had either been completed or were at an advanced stage of completion by June 30, 1994.

The report cautioned, however, that the steps taken over the past year were only the beginning of what will be a continual, evolutionary process and that specific goals of the program of actions will only be realized over time.

According to the report, the greatest challenges for the future include fully integrating effective and efficient participatory practices into the Bank's work, altering and simplifying Bank procedures in order to shift attention to obtaining more results in the field, and getting the organizational signals and incentives right in order to truly establish a "culture of implementation" in the institution.

During the past year, the Bank also addressed other sensitive issues in its project work that were not specific to the recommendations of the task force on portfolio management. Following a comprehensive review of the Bank's resettlement practices, resettlement policies were further refined.[4] In addition, a report on the Bank's experience with governance issues was issued (see Box 4-3). These two studies provided a candid assessment of the issues and a framework for improvements in Bank strategies for dealing with them. Steps such as these are an integral part of the Bank's efforts to improve participation in project preparation and project management and in the overall way that the Bank does business.

The most visible impact thus far of these efforts, particularly project restructurings and closing or cancellation of loans for poorly performing projects, has been to prevent a slide in

[4] For details, see page 44.

Box 4-3. The World Bank's Experience with Governance

The Bank's interest in governance—defined by the Bank as the manner in which power is exercised in the management of a country's economic and social resources for development—derives from its concern for the sustainability of the programs and projects it helps to finance.

If sustainable development is to occur, a predictable and transparent framework of rules and institutions for the conduct of private and public business must exist. Governance of borrowing countries is relevant to the Bank's work because, in its absence, much of what the institution seeks to achieve through its lending is at risk.

A 1992 report to the executive directors on governance described some of the activities the Bank was supporting in the area of governance in the form of studies, technical assistance, and its lending operations. In the intervening two years, according to a follow-up report,[1] the Bank has moved rapidly and far to support borrowing countries in strengthening the governance underpinning of their development efforts, and it has been able to do so within the framework of the economic and social dimensions of governance permissible under the Bank's Articles of Agreement.

Much of the governance work in which the Bank is engaged comprises traditional public sector management categories such as civil service reform, public expenditure management, and public enterprise reform. This is a reflection that these categories are central to how power is exercised and that, in these areas, there is a substantial agenda for rehabilitation, modernization, and change. At the same time, the Bank has extended its governance activities to entirely new areas of support under the rubrics of accountability, rule of law, and transparency. While the Bank's activities in the new areas are expanding, the bulk of the Bank's governance work will continue to be public sector management.

Public sector management work, mainly technical in character, addresses the processes and machinery of public sector performance, not necessarily its causes. This suggests that the Bank's future governance agenda should be developed at two levels: first, through more determined attempts to foster local ownership of reform programs, and second, through encouragement of institutions of civil society so that they can grow and, in turn, seek greater accountability from governments in the economic sphere.

The new procedures that have been introduced to improve project preparation and portfolio management are likely to have a strong positive influence on the Bank's work on governance. Thus:

- increased emphasis will be placed on the systemic problems of project implementation, many of which are governance related, through the country-portfolio performance-review process;
- the Bank's new disclosure policy provides an excellent opportunity to make much more transparent to the outside world how the Bank approaches complex situations in borrowing countries.

In addition, the country-assistance strategy dialogue, one of the primary vehicles for reviewing the Bank's lending strategy in a given country, can provide a forum for frank evaluation of factors, including governance issues, that constrain the effectiveness of development assistance.

[1] World Bank. 1994. *Governance: The World Bank's Experience*. Washington, D.C.

overall portfolio performance.[5] Specifically, the latest annual report on portfolio performance—for fiscal year 1993—revealed that the overall health of the Bank's portfolio—based on overall status ratings—was relatively stable between fiscal years 1992 and 1993. Since peaking at over 20 percent in fiscal 1991, the percentage of problem projects has fallen to 18 percent in fiscal years 1992 and 1993.[6]

The report also found that the percentage of problem projects based on development-objectives ratings increased marginally, from 12 percent in fiscal 1992 to 13 percent in fiscal 1993. The slight increase did not necessarily reflect a real deterioration in development performance of the Bank's portfolio, however. Rather, it reflected efforts by the Bank's six operational regions, within the limitations of the current rating methodology, to base development-objective ratings on more realistic expectations about the extent to which project-development objectives would be achieved. (See Box 4–4 for a discussion of the rating systems used to indicate project effectiveness.)

[5] By the end of fiscal 1993, the latest date for which data are available, restructuring of 104 projects had been completed or was under way, while restructuring of thirty-six others was being planned. Seventy-seven problem projects were closed or canceled in fiscal 1993 as compared with thirty-eight projects in fiscal year 1992. The project restructurings and closings/cancellations have had a positive effect on the age structure of problem projects, with the greatest improvement in the proportion of projects that had been rated as being problematic for two consecutive years. They have also helped to increase the disbursement ratio in the Bank's portfolio in most operational regions.

[6] Excluding countries that were in nonaccrual status and/or suffered serious civil conflict in fiscal 1993, the percentage of problem projects declined from more than 18 percent in fiscal 1991 to 16 percent in fiscal 1992 and 15 percent in fiscal 1993.

Box 4-4. Increasing the Reliability of Rating Project Effectiveness

Projects are rated on a four-point scale to determine the extent to which project-development objectives (DOs) are expected to be met and to determine their overall status (OS). Projects are rated on a four-point scale, with a 1 representing the best rating and a 4 the worst. A DO rating of 1, for instance, means that all project development objectives are expected to be substantially achieved, while a 4 rating means that major objectives will probably not be achieved, and the project appears to be no longer justified. An OS rating of 1 means no significant problems, while a 4 rating indicates the existence of major problems that are not being adequately addressed.

Although DO ratings are supposed to be reflected in the OS ratings, a recent analysis of the divergence between *Annual Report on Portfolio Performance* (*ARPP*) and project completion report/performance audit report ratings for a sample of more than 1,000 projects completed in the 1980s concluded that OS ratings seemed to be dominated by short-term concerns about implementation, while DO ratings reflected longer-term optimism that objectives would be achieved once implementation problems were resolved. Neither rating, therefore, was judged as being reliable in measuring the development effectiveness of projects in the sample. As a result, Bank staff were required, for the purposes of the most recent *ARPP*, to pay greater attention to the quality of DO ratings. In addition, any significant gap in assessments based on OS and DO was to be explained.

The greater attention of staff to the DO ratings in the *Annual Report on Portfolio Performance* for fiscal 1993 helped to improve the reliability of those ratings. However, key to further and substantial improvement in their reliability are the precise definition of the expected development results for each project and better means for gauging progress toward these results during the loan disbursement or implementation period.

In principle, progress should be assessed using the same cost/benefit or cost-effectiveness criteria that are applied at project appraisal or at completion. If costs were not a constraint, this would involve repeating periodically during project implementation the original cost/benefit or cost-effectiveness analysis done at appraisal with revised or updated data or estimates. As a practical and less costly alternative, however, the portfolio management task force recommended that progress toward expected development results be monitored based on the evolution of a limited number of variables ("performance indicators") that have been identified in the risk/sensitivity analysis at appraisal as critical to achieving the expected project development results. This requires substantial improvements in risk/sensitivity analysis and performance-indicator monitoring.

As part of the action plan to improve portfolio management, work is proceeding on developing guidance to staff on risk/sensitivity analysis and performance indicators. Based on this work, revision of the project-rating methodology and project-performance rating system was initiated in June 1994. The major revision entails, among other things, the adoption of a dual rating system that would give separate overall ratings to the implementation status of a project and to its development effectiveness (thus, DO ratings would no longer be subsumed as part of the OS ratings); greater attention to risks in the new DO ratings; greater use of performance indicators to measure development effectiveness; and the adoption of guidelines for *ex-post* evaluation of development results of completed projects and for the evaluation of development results of ongoing projects. Full implementation of these improvements will realistically take a few years given the sharp departure from current practices that is entailed and the large number of projects in the Bank's portfolio.

Beyond the immediate effects of portfolio clean-up, however, a definitive turnaround in overall performance in the next few years is not assured. Against the ongoing efforts to improve the management of portfolio performance must be reckoned the implementation risks inherent in the ambitious and complex development agenda of the Bank and its borrowers. The risks associated with Bank lending to borrowers that are at an early and difficult stage of transition to a market economy, or of economic reform and adjustment, are also significant. As experience shows, country economic and institutional factors have ultimately a considerable effect in determining the development outcome of projects.

A sandy lane beneath poplar trees is the main roadway for conveying goods to market in this part of Chinese Turkestan.

Section Five
1994 Regional Perspectives

Africa

The year 1993, on the whole, was a difficult one for the countries of the Africa region, as gross domestic product (GDP), excluding South Africa, grew by just 1.4 percent. Although this represents an improvement over 1992, it is nevertheless disappointing, considering the region's high rate of population growth and the level needed for development. As in previous years, the countries implementing major reforms, and therefore benefiting from the Special Program of Assistance (SPA), saw their aggregate output increase by 2.1 percent, or more than the average for the region.[1] The sixteen core (or steady) reformers did still better, as their GDP rose by 2.8 percent; the countries comprising the CFA Zone, however, saw their economies contract for a third consecutive year.[2] A positive development in 1993

[1] The SPA for low-income, debt-distressed sub-Saharan African countries provides quick-disbursing balance-of-payments assistance to twenty-nine eligible countries (as of the end of June 1994) in support of reform programs developed in conjunction with the Bank and the International Monetary Fund (IMF).

[2] The countries are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Gabon, Mali, Mauritania, Niger, Senegal, and Togo.

Table 5-1. **Africa: 1992 Population and Per Capita GNP of Countries that Borrowed during Fiscal Years 1992–94**

Country	Population[a] (millions)	Per capita GNP[b] (US dollars)	Country	Population[a] (millions)	Per capita GNP[b] (US dollars)
Angola[c]	9.7	—	Madagascar	12.4	230
Benin	5.0	410	Malawi	9.1	210
Burkina Faso	9.5	300	Mali	9.0	310
Burundi	5.8	210	Mauritania	2.1	530
Cameroon	12.2	820	Mauritius	1.1	2,700
Cape Verde	0.4	850	Mozambique	16.5	60
Central African Republic	3.2	410	Niger	8.2	280
Chad	6.0	220	Nigeria	101.9	320
Comoros	0.5	510	Rwanda	7.3	250
Congo	2.4	1,030	São Tomé and Principe	0.1	360
Côte d'Ivoire	12.9	670	Senegal	7.8	780
Equatorial Guinea	0.4	330	Seychelles	0.1	5,460
Ethiopia	54.8	110	Sierra Leone	4.4	170
Gabon	1.2	4,450	Sudan[d]	26.5	—
Gambia, The	1.0	370	Tanzania	25.9	110
Ghana	15.8	450	Togo	3.9	390
Guinea	6.1	510	Uganda	17.5	170
Guinea-Bissau	1.0	220	Zaire[d]	39.8	—
Kenya	25.7	310	Zambia[d]	8.3	—
Lesotho	1.9	590	Zimbabwe	10.4	570

NOTE: The 1992 estimates of GNP per capita presented above are from the "World Development Indicators" section of *World Development Report 1994*.

— Not available.

a. Estimates for mid 1992.

b. *World Bank Atlas* methodology, 1990–92 base period.

c. Estimated as lower-middle-income ($676–$2,695).

d. Estimated as low-income ($675 or less).

was that, on average, the low-income countries performed better than the middle-income ones, although neither group recorded an increase in per capita terms.

Some of the highest growth rates were achieved by those countries, such as Lesotho, Malawi, Mozambique, and Zambia that were recovering from the severe drought of 1991–92. The rather quick recovery of these and other countries from the effects of the drought is testimony to the relative resilience of their economies and to the effectiveness of collaboration among their public administrations, donors, and nongovernmental organizations (NGOs). The improvement in weather conditions was not generalized, however. Drought persisted in some areas, posing a serious threat in parts of Ethiopia and Kenya, and the countries of the western Sahel experienced poor rainfall. In addition, in these and other countries growth was held back by political transition, a high debt burden (despite debt forgiveness and reschedulings), a deterioration in the terms of trade, and weak policy implementation.

The political transition sweeping the continent has resulted in increasing multiparty democracies: whereas there were just six democracies a few years ago, the number had reached twenty-nine by the end of June 1994. The transition, however, has not been easy, without cost, or uniformly smooth. Where transition governments are in place, power sharing has proven difficult to achieve, and opposing groups still vie for power in many places. On the economic front, the transition has sometimes disrupted production and commerce, affected the mobilization and allocation of resources, and diverted attention away from needed policy reforms. Yet the transition continues nearly everywhere.

There were sharp contrasts on the African scene in 1993/94. The installation of democratically elected governments in Malawi and South Africa stand in sharp contrast to the mass killings in Rwanda. There were a variety of outcomes in the economic sphere, too, due to the contradictory forces at play not just across countries, but within them and even

Table 5-2. **Lending to Borrowers in Africa, by Sector, 1985–94**
(millions of US dollars; fiscal years)

Sector	Annual average, 1985–89	1990	1991	1992	1993	1994
Agriculture	533.9	997.4	504.9	707.4	318.3	152.6
Energy						
Oil and gas	20.6	—	300.0	48.5	2.4	186.2
Power	113.9	230.0	155.0	86.0	356.0	90.0
Environment	—	—	—	—	—	2.6
Human Resources						
Education	122.8	350.7	265.9	402.9	417.4	325.5
Population, health, and nutrition	75.7	232.7	432.8	100.3	131.2	161.6
Social sector	—	—	—	—	—	—
Industry and Finance						
Industry	124.6	180.1	11.0	200.0	83.5	29.6
Finance	241.3	193.6	138.8	619.9	252.3	400.1
Infrastructure and Urban Development						
Telecommunications	50.0	225.0	12.8	—	89.1	—
Transportation	339.4	543.6	309.5	242.8	483.0	515.0
Urban development	177.2	360.4	98.3	233.8	61.2	111.4
Water supply and sewerage	102.9	257.2	256.0	297.4	67.2	74.1
Mining and Other Extractive	31.5	—	21.0	6.0	—	—
Multisector	504.0	285.6	861.0	895.0	434.2	711.0
Public Sector Management	81.0	76.6	27.2	133.6	121.5	48.2
Tourism	—	—	—	—	—	—
Total	2,519.0	3,932.9	3,394.2	3,973.6	2,817.3	2,807.9
Of which: IBRD	909.3	1,147.0	662.9	738.4	47.0	127.7
IDA	1,609.7	2,785.9	2,731.3	3,235.2	2,770.3	2,680.0
Number of operations	80	86	77	77	75	60

NOTE: Details may not add to totals because of rounding.
— Zero.

Tanzanian women fishing in the Rufiji river delta. The Bank is preparing long-term projections on Africa's coastal fishing.

within sectors. Some countries (such as The Gambia, Sierra Leone, and Zimbabwe), where the implementation of reform programs is on track, nonetheless experienced low GDP growth rates due to the deterioration of their terms of trade, weather conditions, the lingering effects of the 1991–92 drought, or the disruptions caused by rebel activity and political transition. In contrast, other countries (such as Equatorial Guinea and Sudan, for example), where reform programs were lacking or off-track, registered growth of 6 percent to 7 percent, helped by oil exports or favorable agricultural conditions. In yet other countries, results were uneven, with agricultural growth coinciding with a decline in industrial production and services, or a decline in overall exports accompanied nevertheless by an expansion of nontraditional exports. Contrasts also marked the implementation of policies. While the countries of the CFA Zone as a group failed to take the necessary measures to restore their competitiveness in 1993, many of them implemented significant structural reforms in the fiscal, financial, trade, and other areas. In several of the good performers, the improvements that took place were still inadequate, however; savings rates, for example, remained too low to support rapid, sustained growth, and social conditions continued unsatisfactory.

Despite this panoply of variations, the events of the past twelve months have some common elements that provide encouraging signs for the future. Despite delays and costs in terms of lives and physical assets, the democratization process is moving ahead. Despite economic and political hardships, reform programs have survived in most countries and have even been strengthened in some. Several countries improved their performance in the course of the past year, and the members of the CFA Zone have taken an historic, bold step to improve their competitiveness. While much remains to be done, more countries are embarked on reform programs and face better prospects than compared with a year ago.

Varying Policies, Varying Performance

Another common thread of Africa's experience, despite the contrasts noted, is that African countries that have sustained adjustment policies generally have performed better than those countries that have not. This observation, made in a recently released staff study that covered the adjustment experience in sub-Saharan Africa from 1981 through 1991 (see Box 5–1), is complemented by comparing the more recent experience of a country where policy reform has been seriously interrupted (Nigeria) with a country that strayed from, but

Box 5-1. Implementation of Economic Reform: Overview and Seven Case Studies

The encouraging news from sub-Saharan Africa is that countries that have persisted in implementing economic reforms have begun to see payoffs. A recent World Bank report[1] has traced the effects of policy reforms during 1981–91 in a group of twenty-nine countries. Of this group, the six with the greatest success in eliminating macroeconomic imbalances enjoyed the strongest resurgence in economic performance, experiencing a median increase of almost 2 percentage points in the growth rate of GDP per person. The increase in their industrial and export growth rates was even more striking. Agricultural growth also accelerated in the countries that taxed their farmers less. By contrast, countries that did not improve their policies saw median incomes decline by 2 percent a year.

Seven case studies completed by the Africa Regional Office of the World Bank—from Burundi, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal, and Tanzania—reinforce this finding, while explaining in greater detail the interaction between initial conditions, external developments, and social and political choices in implementing economic reforms.[2] The primacy of sound macroeconomic policies and stability for sustaining economic development, responding effectively to domestic and external shocks, and sending credible signals to the private sector are clearly shown in the case studies.

Broadly speaking, the economic reform programs in all seven countries addressed the problems of high budgetary and balance-of-payments deficits, distortions in markets for goods and services and factors of production, suppressed private sectors, and inefficient public services. Policy adjustments were undertaken to establish market-determined exchange rates; improve revenue mobilization, while reallocating or reducing government expenditures, especially investment; liberalize domestic prices (especially in agriculture), trade and tariff regimes, and agricultural marketing; introduce nondistortionary interest rates and strengthen financial sector regulation; enhance the efficiency of public enterprises and labor markets; and improve the coverage and quality of social services.

The case studies highlight several factors that could explain the diverse economic outcomes in the region. The ability to persist with the fundamentals—macroeconomic stability, price and market liberalization, and adequate social sector allocations—separates the successes from the failures. Ghana, Kenya, and Tanzania are examples where a fairly good track record in these areas was beginning to be established by the late 1980s. However, even where there is some progress on the fundamentals, the lack of action on other fronts—notably the financial sector and public enterprise and civil service reform—has proven costly. Most policy reversals have been caused by the inability to move forward in a coordinated manner in the core reform areas or the inability or unwillingness to maintain the initial momentum of such reforms.

[1] World Bank. 1994. *Adjustment in Africa: Reforms, Results, and the Road Ahead*. New York: Oxford University Press.

[2] Husain, Ishrat, and Rashid Faruqee, eds. 1994. *Adjustment in Africa: Lessons from Country Case Studies*. World Bank, Washington, D.C.

reembarked on, policy reform (Kenya) and with one that has remained steadily on the reform path (Uganda).

Nigeria went through a tumultuous period in both 1992 and 1993. The planned democratic transition was protracted and, in the end, did not establish civilian rule. The process generated considerable uncertainty, economic disruptions, and social unrest. Budgetary control deteriorated, leading to fiscal deficits, which exceeded 10 percent of GDP. Inflation rose to 40 percent in 1992 and 58 percent in 1993. The official exchange rate was pegged below market rates, with the spread reaching 100 percent by late 1993. The external balance deteriorated significantly, with reserves dwindling and arrears to external creditors rising to more than $6 billion, or one fifth of outstanding debt. Meanwhile, the economy grew by only 4.1 percent in 1992 and 1.9 percent in 1993, compared with an average 5 percent in the preceding six years. The economic policies announced in the 1994 budget abolished free transactions in the foreign exchange and credit markets, thereby removing the remaining core pillars of the structural adjustment program adopted in 1986.

In 1990–92, Kenya witnessed a sharp decline in all major macroeconomic performance indicators. However, in early 1993, the Kenya authorities signalled an interest in restarting the reform process, and, as a result, the conditions for strong medium-term growth in Kenya have improved significantly. Implementation of stabilization policies and more effective enforcement of financial sector regulations have sharply reduced runaway inflation (falling to an annual rate of around 15 percent during the last quarter of 1993 after peaking at around 100 percent during the second quarter). Important steps towards structural reform, particularly in the area of external trade, have begun to gradually restore domestic and international confidence in the government's commitment to reform. With the elimination of all but a short

list of import licenses and the introduction of a unified and stabilized market-determined exchange rate (the Kenya shilling becoming fully convertible in May 1994), the stage has been set for the private, and especially the export, sector to lead the recovery. By the end of 1993, monetary control had been tightened, discipline had been reintroduced in the financial sector, the maize market had been fully liberalized, and foreign-exchange reserves had recovered to comfortable levels. These improvements facilitated the approval by the International Monetary Fund (IMF) of a one-year Enhanced Structural Adjustment Facility arrangement during the fourth quarter of 1993, as well as the successful rescheduling of external arrears with the Paris Club in January 1994.

Uganda has gone quite far in creating a free enterprise economy. At the same time, the government has stabilized the economy through tight fiscal and monetary programs. Inflation was reduced to around 4 percent in 1993, down from 45 percent in 1992 and 240 percent in 1987, the year in which the present adjustment program was initiated. Uganda has in place a program of comprehensive structural reforms covering the civil service, public enterprises, and major financial institutions, and is undertaking a large reduction in military forces to release resources for priority spending programs. These reforms have had a positive effect on the economy: Real GDP growth is estimated to have reached 6 percent in 1993, enabling per capita consumption to rise by about 2.5 percent. The lowered inflation has contributed to a stable exchange rate and renewed confidence in the country's currency. In addition, the downward slide in coffee production, the country's main export, has been halted. There are also signs that nontraditional exports are growing rapidly; that the public's willingness to hold financial assets in the form of savings and time deposits, which have increased fourfold in the past two years, is increasing; that the inflow of private capital has been substantial; and that investment, including rehabilitation and reconstruction work on properties of returning entrepreneurs, is on the rise. All of these gains, together with the increased focus of government spending on basic social services, are expected to have a positive impact on poverty reduction.

Improved Competitiveness

The countries of the CFA Zone have faced major economic, financial, and social difficulties since 1986. These difficulties were caused by a downward deflationary spiral of production, incomes, and expenditures that cut average real per capita income by 40 percent, reduced the capacity of governments to provide basic social services, increased the incidence of poverty, and undermined the Zone's financial institutions. The spiral, in turn, was caused by a massive loss of competitiveness that resulted from a combination of the inflated cost structure existing in the mid 1980s and the major external shocks suffered since then. The prices of the Zone's major exports (coffee, cocoa, cotton, phosphate, uranium, and oil) dropped sharply in the second half of the 1980s, causing its terms of trade to fall by 40 percent between 1985 and 1992. The Zone's real effective exchange rate (REER) appreciated by 39 percent over the same period. That movement was the result of the depreciation, since 1985, of the United States dollar and the large depreciation achieved by many competing developing countries of their own REERs through nominal devaluations in the context of economic reforms. The internal adjustment programs and structural reforms pursued by various CFA countries in the period 1986–93 were able neither to correct this massive loss of competitiveness nor halt the ongoing downward spiral.

Recession and financial crisis in the CFA Zone continued throughout 1993. Moreover, as it became increasingly clear that internal adjustment programs were not working, external financing for them dried up. For 1993 as a whole, per capita real income declined by 4.5 percent, exports fell by 3.9 percent in volume, and investment further contracted to 13.8 percent of GDP.

Against this backdrop, in early January 1994 the heads of state of the CFA countries met in Dakar to discuss ways to end the economic crisis. The meeting resulted in the historic decision to change the parity of the CFA franc from 50 per French franc, a level at which it had been fixed in 1948, to 100 per French franc.[3] At the Dakar meeting, another important, although less publicized, step was taken: the signing of a treaty transforming the West African Monetary Union into a full economic union. A common approach to the implementation of economic reforms that were needed to accompany the parity change was also discussed.

The decisions made at the Dakar meeting have provided a unique opportunity to restart the stalled structural adjustment process in the fourteen countries, restore growth, and reduce poverty. Indeed, since January, nearly all countries have adopted reform programs that

[3] The parity of Comoros' currency was changed to 75 per French franc.

are being supported by the World Bank and the IMF. All postdevaluation programs give priority to restraining inflation to ensure that the nominal parity change actually leads to a substantial depreciation of the real exchange rate. Hence, public sector wage increases have generally been limited to 10 percent to 15 percent to prevent a wage-price spiral. To allow some time for urban wage earners to adjust to the higher cost of imported items, increases in the prices of selected imported goods (petroleum products, rice, sugar, edible oils, medicines, and school books, for instance) are being curtailed through temporary tax reductions and direct subsidies. Fiscal reform—reduction of deficits to sustainable levels, tax reform, and restructuring of expenditures—also figures prominently as an objective of the reform programs. Priority, however, has been given to protecting vulnerable groups and relaunching poverty-reduction programs by increasing public expenditures on basic education and health services, developing and implementing social funds targeted at the poorest groups, and expanding labor-intensive public works programs.

Regional Cooperation Efforts

The recent events in the CFA Zone and the new challenges facing South Africa and its neighbors call for strengthened regional cooperation. Various actions have already been taken in this direction, and others are under consideration. In the CFA Zone, the member countries of the new West African Economic and Monetary Union (UEMOA) and the Central African Monetary Union have decided to form economic—as well as monetary—links. In Western Africa, the signing of the treaty for the new union by the six member states was accompanied by further efforts to render budgetary policies coherent, harmonize tariffs and indirect taxes, and develop a regional financial market. In Central Africa, the six member states of the Central African Customs and Economic Union have taken advantage of their increased competitiveness to accelerate the implementation of a new common external tariff. Nontariff barriers have been removed, and rates have been lowered.

These efforts are being supported by the Bank, together with the IMF, the European Union, and other interested donors.

At the level of the entire CFA Zone, progress was made during the fiscal year in the areas of social-security provision and collection of statistics. With a view to providing a positive environment for private sector-led growth, a treaty has been signed that will put into place a common framework for business law.

The World Bank, together with the IMF, the European Commission for the European Union, and the African Development Bank, is cosponsoring an initiative to facilitate private investment, trade, and payments in Eastern and Southern Africa and in the Indian Ocean countries—the cross-border initiative (CBI).

The CBI is based on a new integration concept that promotes mobility of factors, goods, and services across national boundaries among participating countries while minimizing chances for diversion of trade and investment. It involves voluntary participation by countries that are ready to accelerate the reform effort, and is based on the principle of reciprocity among the participating countries. The proposed reform measures are in the areas of trade liberalization, liberalization of the exchange system, deregulation of cross-border investment, strengthening of financial intermediation, and the movement of goods and persons among the participating countries. The reform agenda supported under the CBI has been developed through a two-year process of discussion by public and private sector representatives of the participating countries, as well as consultations with regional institutions.

The CBI was endorsed by thirteen countries at a meeting in Kampala, Uganda, in August 1993. To date, nine countries (Kenya, Malawi, Mauritius, Namibia, Rwanda, Swaziland, Uganda, Zambia, and Zimbabwe) have confirmed their intention to participate and have established mechanisms to prepare country-specific proposals for implementing the CBI-supported reform agenda.

In addition, the heads of state of Kenya, Tanzania, and Uganda (the members of the former East African Community) recently met in Arusha, Tanzania, to reaffirm their commitment to strengthened cooperation. There is a consensus that this cooperation should be based on practical improvements in investment incentives and tax regimes, and streamlined border formalities.

The Bank's Assistance Strategy

The priorities for the Bank in Africa are poverty reduction through environmentally sustainable development; human resources development—not just through lending but also by defining frameworks for effective interventions by governments and donors, as in a recent staff study on health in Africa (see Box 5-2); providing an exceptional response, already in progress, to the situation and events in the CFA Zone; working with major partners to fulfill the objectives and the priorities of the SPA; and "getting results in the field" through the improved quality of projects and their

Box 5-2. Toward Better Health in Africa

Health issues are assuming an increasingly important place in the Bank's assistance strategy in Africa. Reflecting this trend, a major sector study was completed in 1993 in close cooperation with the World Health Organisation, the United Nations Children's Fund, and other partners. The study, *Better Health In Africa*, aimed at building consensus on future health strategies in Africa among the many stakeholders.[1] It found that while dramatic improvements had taken place since independence, most African countries lagged well behind other developing countries in health status. At fifty-one years in 1991, life expectancy at birth in Africa is eleven years less than in the low-income countries as a group, and Africa's infant mortality rate, at over 100 deaths per 1,000 live births, is about one third higher on average than for the universe of low-income countries. New health problems, such as AIDS, and new strains of well-known diseases such as malaria, threaten the important health gains made in Africa over the past generation.

The report discussed "best practices" for health improvement by African governments and their external partners in three areas. First, as did *World Development Report 1993—Investing in Health*, the report emphasized the importance of strengthening the capacity of households and communities to recognize and respond to health problems. This requires health and development strategies that increase the access of the poor to income and opportunity, pay special attention to female education and literacy, provide for community monitoring and management of health services, and furnish information to the public and health-care providers on health conditions and services. Second, the report called for reform of African health-care systems, and especially for making a basic package of cost-effective health services available to Africans near where they live and work through health centers and first-referral hospitals. Third, the report underscored the need for more efficient allocation and management of public financial and human resources devoted to health improvement, and for their progressive reallocation away from less cost-effective interventions (largely provided through tertiary facilities) to a basic package. It found substantial room for increases in technical efficiency.[2]

The report concluded that substantial health improvement in Africa is feasible, despite the severe financial constraints facing most African countries. The will to reform and to provide a limited package of quality, low-cost, and highly cost-effective health services to the vast majority of the population is central to success. The study found that higher-income and middle-income African countries, in due course, should be able to finance a basic package of health services for their people from public and nongovernmental resources, without substantial external support. However, the low-income countries are likely to need donor assistance in support of health for an extended period. These countries now spend about $8 per capita annually on health from all sources—public, nongovernmental, and external—compared with the indicative estimate for the basic package in the study of about $13. The transition from the current to the indicative level of spending will have to be implemented flexibly, on a country-by-country basis, with provisions put in place for interim targets to be met along the way.

[1] World Bank. 1994. *Better Health in Africa*. Washington, D.C.

[2] For example, poor drug selection, procurement, distribution, and prescription practices are responsible, together with other factors, for an effective consumption of only about $12 on drugs for every $100 in public spending on pharmaceuticals in many African countries.

implementation, especially through strong capacity-building efforts.

Poverty reduction through environmentally sustainable development. The need and urgency to reduce poverty in the region is evident; however, progress has been limited in Africa as a whole, despite success in some countries. Achieving a high rate of economic growth, combined with a pattern of growth favoring increases in incomes in the poorest sections of society, is central to the Bank's poverty-reduction strategy. The Bank's two-pronged strategy, as elaborated in *World Development Report 1990*, acts as a guide to the institution's economic and sector work, as well as to its lending operations.

Fighting land degradation and desertification have been key objectives of the Bank in its environmental program for the region. This program has been addressed primarily through the elaboration and implementation of national environmental action plans (NEAPs) and through the Bank's lending program. NEAPs—which provide a basis for the Bank's dialogue with borrowers on environmental issues, describe a country's major environmental problems and concerns, and formulate actions to address whatever problems are identified—have systematically paid attention to arresting land degradation through better natural resource management. The Bank's regional portfolio includes more than $500 million in environmental projects, some of which can be directly linked to the NEAP process. The Bank has also been involved in the preparation of a new international convention on desertification that is cur-

Table 5-3. **World Bank Commitments, Disbursements, and Net Transfers in Africa, 1990–94**
(millions of US dollars; fiscal years)

	Nigeria			Côte d'Ivoire			Sudan			Total region		
Item	start 1994	1994	1990–94	start 1994	1994	1990–94	start 1994	1994	1990–94	start 1994	1994	1990–94
Undisbursed commitments	2,461			423			181			13,118		
Commitments		—	1,954		376	1,365		—	98		2,808	16,953
Gross disbursements		353	1,646		306	1,073		48	378		3,195	14,002
Repayments		348	1,402		183	769		3	49		1,116	4,678
Net disbursements		5	243		123	304		45	329		2,079	9,324
Interest and charges		270	1,325		149	767		4	36		868	4,221
Net transfer		−265	−1,082		−26	−463		41	293		1,211	5,103

NOTE: Disbursements from the IDA Special Fund are included. The countries shown in the table are those with the largest amounts of public or publicly guaranteed long-term debt. Details may not add to totals because of rounding.
— Zero.

rently being negotiated and is prepared to be a partner in its implementation when it enters into effect.

Assistance to CFA countries. Since the parity change and as of June 30, 1994, IDA has provided approximately $1 billion in quick-disbursing credits and adjustment operations to the CFA countries. For the short term, the Bank-supported postdevaluation programs include, in addition to steps to limit the price increases of essential goods, (a) a draw-down of reserve stocks and additional imports of essential foodstuffs to counter speculative commercial practices, (b) increased budgetary appropriations for education and health, and (c) steps to assure adequate supplies of essential drugs in public health facilities and of low-cost generic drugs in private pharmacies. For the longer term, expenditures on labor-intensive civil works programs, rural infrastructure, education, and health will be increased, as will special programs (nutrition in particular) that target the poorest groups and that will be implemented by NGOs and community associations.

SPA—phase three. The third phase of the Special Program of Assistance (SPA-3), launched by the program's donors in October 1993, will cover the three calendar years 1994–96. Since the CFA Zone countries instituted a parity change in their currency and launched comprehensive economic reforms, two additional countries, Comoros and Côte d'Ivoire, have met SPA eligibility requirements, bringing the total of eligible countries to twenty-nine. The estimated requirements of donor adjustment assistance for these countries is $12 billion over the three-year period. The SPA donors have met twice since the parity change to discuss financing requirements. Total donor pledges have increased, and some disbursements will be accelerated in response to these needs. In addition to mobilizing additional resources, SPA donors have stressed the need to pursue greater selectivity in allocating resources to ensure that countries with strong reform programs are adequately funded and that scarce resources are used efficiently. As of June 30, 1994, the donor community had pledged $6.6 billion in quick-disbursing balance-of-payments assistance, and further efforts are continuing to close the remaining gap.

The priorities and objectives of SPA-3 are achieving higher growth rates and alleviating poverty; supplementing policy-reform programs with more investment in human resources and infrastructure; raising the level of domestic savings and private investment; placing greater emphasis on ensuring that the benefits of growth are directed at reducing poverty; and strengthening local economic management and institutional capacity. The SPA's primary objective continues to be to assist countries to strengthen their policy-reform programs and structural reform efforts. However, to accelerate growth, reduce poverty, and realize the full benefits of policy reforms, the efficiency of public investment financing by donors, which still accounts for about 80 percent of total donor financing, must be improved substantially. Discussion is continuing on sectorwide approaches to donor financing aimed at improving aid coordination and effectiveness. The SPA's role would be to serve as a catalyst to encourage donor support for such integrated sector programs, to monitor outcomes, and promote the harmonization of donor procedures. Mobilization of resources and coordination of specific sector-investment programs will continue at the country level

through mechanisms such as consultative groups, roundtables, and country-based local aid-coordination groups.

Project quality and implementation. Despite the difficulties faced by the region, portfolio performance was relatively stable in 1993. Differences among countries were caused, in part, by variation in macroeconomic performance. Overall, adjusting countries had a better record of project performance than the nonadjusting ones, and operations in the particularly difficult areas of agriculture and adjustment lending improved their implementation records. The most serious general constraints to effective implementation are uncertain borrower ownership and limited local capacity. To increase ownership, the Bank is making a concerted effort to involve stakeholders (governments, beneficiaries, the private sector) in project preparation and implementation. The use of participatory approaches—beneficiary assessments, participatory rural assessments, and participatory workshops—is steadily increasing. In many cases, stakeholders participate not just in project design and preparation but also in economic and sector work (ESW). Several actions are under way to improve project quality at entry such as preparation of "letters of sector policy," avoiding unnecessary complexity in project design (through participatory approaches to project preparation and greater involvement by resident missions in the process, for example), testing new or complex approaches in small pilot operations, and identifying project-monitoring indicators that reflect both output and impact. In fiscal 1993, the most recent year for which numbers are available, the amount of loan cancellations expected to result from completed or planned restructurings of problem projects totaled about $500 million.

The need for capacity building in Africa cuts across all sectors, and, in all cases the need is urgent and acute. The challenge involves both making greater use of existing local capacity and helping to build such capacity where it does not exist. The Bank's approach recognizes that capacity-building issues need to be addressed at an early stage in the project cycle and that the effort cannot succeed without improving the performance and productivity of the civil service. This concern has led the Bank to appoint a Capacity Building Committee to make recommendations on the most effective ways to advance toward this goal. The committee's recommendations (which highlight "best practices" to follow and cover a broad spectrum, from ESW and lending to the role of resident missions) have been approved and are being carried out.

Capacity building—as well as dialogue with the intended beneficiaries of development—continued to be the focus of the Bank's work in South Africa during the past year. In that country, the Bank's informal work has dealt with the entire political spectrum, including nongovernmental organizations, the private sector, teachers, and trade unions. Dozens of South Africans have been trained in economics, and relationships have been built up with many of the country's economic and political actors. In April 1994, the Bank opened up a resident mission, following a request from the multiparty South African transitional council.

East Asia and Pacific

Strong economic growth across almost all countries dominated the development picture in the East Asia and Pacific region in calendar year 1993. In addition to its remarkable poverty reduction in recent years, East Asia and Pacific again led all regions—developing and developed—in posting a 9.2 percent growth rate, up slightly from 8.7 percent in 1992. Export growth continued to be substantial, registering an increase similar to 1992's 13.6 percent. China, the world's largest developing economy, recorded 13.4 percent growth in gross domestic product (GDP), despite concerns during 1993 about overheating the economy. China also continued to implement fiscal, monetary, and basic market reforms (see Box 5-3). Indonesia—the region's second-largest economy—maintained a steady 6.6 percent growth rate, with significant increases in industrial production and exports; a large debt burden and environmental issues loomed as challenges to the quality and sustainability of its growth. Other countries with real rates of growth in GDP in excess of 5 percent included the Republic of Korea, the Lao People's Democratic Republic (Lao PDR), Malaysia, Thailand, and Viet Nam. A recent study concluded that if economic growth had been randomly distributed among countries, there would have been one chance in 10,000 that it would be so concentrated in a single region (see Box 5-4).

***Table 5-4.* East Asia and Pacific: 1992 Population and Per Capita GNP of Countries that Borrowed during Fiscal Years 1992–94**

Country	Population[a] (millions)	Per capita GNP[b] (US dollars)
Cambodia[c]	9.1	—
China	1,162.2	470
Fiji	0.8	2,010
Indonesia	184.3	670
Korea, Republic of	43.7	6,790
Lao People's Democratic Republic	4.4	250
Malaysia	18.6	2,790
Maldives	0.2	500
Mongolia[d]	2.3	—
Papua New Guinea	4.1	950
Philippines	64.3	770
Solomon Islands	0.3	710
Thailand	58.0	1,840
Viet Nam[c]	69.3	—
Western Samoa	0.2	940

NOTE: The 1992 estimates of GNP per capita presented above are from the "World Development Indicators" section of *World Development Report 1994*.

— Not available.

a. Estimates for mid 1992.

b. *World Bank Atlas* methodology, 1990–92 base period.

c. Estimated as low income ($675 or less).

d. Estimated as lower-middle income ($676–$2,695).

A remarkable feature of the region's economic performance in the past year was the relative evenness of steady high growth rates. The Philippines was the only major country in which the regional average lagged significantly, but recent events (successful completion of the stand-by arrangement with the IMF, completion of a Brady-type of debt agreement, reforms that encourage greater domestic and foreign competition, and efforts to increase the level and efficiency of public investment in infrastructure) gave reason for cautious optimism that better economic times may be ahead.

The small Pacific island economies witnessed a mixed performance in 1993. Fiji, the largest of these, recorded a real GDP growth rate of only 1.7 percent, compared with 3.1 percent in the previous year, as a result of the effects of a severe cyclone that struck in January 1993. The Solomon Islands also recorded a sharp drop in GDP growth to about 2.5 percent—as compared with 8.2 percent in 1992—reflecting a slowdown in logging activity and a decline in fishing. Signs of recovery were seen elsewhere, however: Recovering from the effects of two major cyclones, the Western Samoan economy grew by about 5 percent; Vanuatu also saw a slight upturn during the year.

Economic growth in some of the islands benefited from a pick-up in tourism following the recovery from recessionary conditions in major source markets. The Pacific island economies also continued to benefit from substantial

Box 5-3. China: Continuing Reform and Development

During the past year, China's economy, in many ways, experienced the enviable difficulties that arise from significant economic success and bold market reforms. In fiscal 1994, China's tax revenues increased, as did deposits of individuals in the banking system. The nominal exchange rate remained stable after a substantial devaluation resulting from the unification of the official and swap market rates in January. Export growth was healthy, foreign direct investment continued to flow into the country in large volume, and foreign exchange reserves were steady.

The struggle to contain inflation, however, points to structural difficulties in the economy that can no longer be ignored. Ongoing price reforms and relatively large state-owned enterprise (SOE) deficits are the main causes of inflationary pressure in China.

Despite the sense of volatility as the economy continued its strong growth, most recent indicators have shown a welcome improvement and, in some areas, evidence of stabilization. In particular, fixed asset investment and industrial output grew at a more reasonable pace than in the first half of the fiscal year, and month-on-month inflation appeared to be subsiding. Tighter credit—one of the most effective monetary instruments available to the central government—caused increased difficulty for SOEs, especially in the northeast of the country and the interior. Growth in output of SOEs was low, even negative, in the northeast and southwest in the second half of the fiscal year, raising the possibility of urban tension as the adjustment to the market progresses.

A Bank report recommends additional measures in key areas to address structural weaknesses in the fiscal and financial system. Provided this overall reform plan is properly implemented, China appears likely to be able to achieve high and sustainable economic growth without the benefits being dissipated in high inflation. In the coming years, however, the risk of accelerating inflation remains high as such reforms are enacted.

Box 5-4. The East Asian Miracle

A major work in fiscal 1994 was the publication of "The East Asian Miracle: Economic Growth and Public Policy," the product of a World Bank research team.[1] The report stimulated widespread debate on the components of economic policy that underpinned the spectacular performance of the high-performing East Asian countries. Significantly, the report found that there was little that could be described as "miraculous" about the economic performance, even though the chances of such a concentration of growth, assuming it were randomly distributed worldwide, were just one in 10,000. "Fundamentally sound development policy was a major ingredient in achieving rapid growth," the report observed. But—and it was this finding that aroused the most active debate—the book also noted that government intervention had played a role. How much of a role was not easy to discern, the researchers concluded.

Previous Bank studies had described these policy interventions—suppressing interest rates or promoting favored industries, for example—as always harmful to growth. The study said that "export push," a combination of sound fundamentals and selective interventions, had been crucial to East Asia's success. "Of the many interventions tried in East Asia, those associated with export push hold the most promise for other developing economies," the study concluded. Even so, it added, developing countries hoping to follow in the footsteps of East Asia should limit policy interventions and focus instead on the fundamentals.

The fundamentals that East Asian economies focused on included:

- Managing monetary and fiscal policy to ensure low inflation and a competitive exchange rate;
- Concentrating public investment in education on primary and secondary levels of schooling;
- Fostering effective and secure financial systems to encourage savings and investment;
- Limiting protection so that domestic prices are close to international prices; and
- Supporting agriculture by assisting the adoption of "green revolution" technologies, investing in rural infrastructure, and limiting taxation on agricultural goods.

A summary of the book is available in English, French, Japanese, and Spanish.

[1] World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. A World Bank Policy Research Report. New York: Oxford University Press.

resource flows and remittances. The combination of external resource availability, openness to trade, and generally sound fiscal and monetary management has ensured relative exchange-rate stability and control over inflation. Emerging fiscal deficits in some island economies need to be reduced to ensure macroeconomic stability, however.